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In this curriculum guide on small business management, lessons (including specific course content and teaching suggestions) are developed around general traits and practices conducive to success in small businesses, loans and other sources of capital, budgeting and planning, recordkeeping, marketing and selling, advertising and sales promotion, and credit and collections. References and teaching materials are listed. (Free copies are available to New York State school personnel when ordered through a school administrator from the Publication Distribution Unit, State Education Building, Albany, New York 12224.) (ly)

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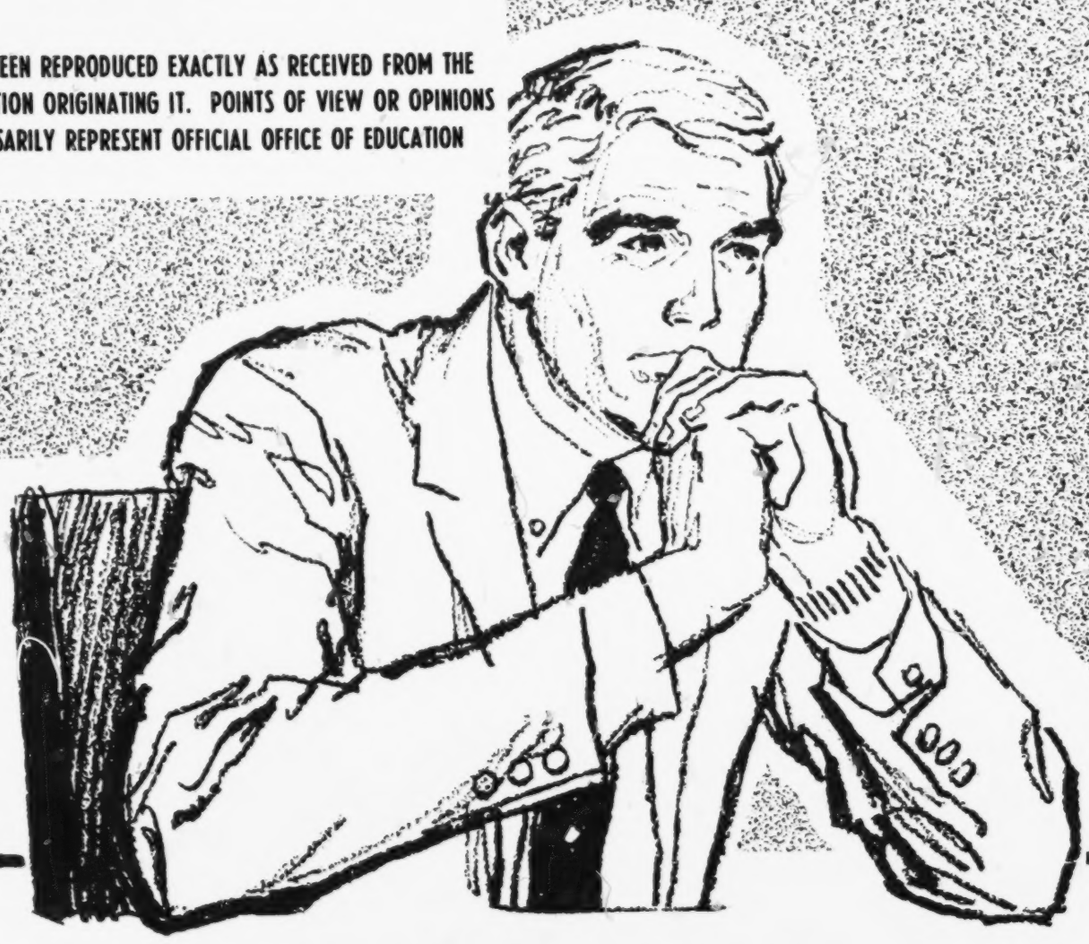

# SMALL BUSINESS MANAGEMENT

## PART I

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Bureau of Continuing Education Curriculum Development
Albany, New York 12224
1968

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# SMALL BUSINESS MANAGEMENT

## PART I

A Suggested Adult Course Outline
Revised edition 1968

The University of the State of New York
The State Education Department
Bureau of Continuing Education Curriculum Development
Albany, New York 12224

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# FOREWORD

"How deeply should we go into recordkeeping? Business ratios is a pretty tough topic. Do you think we should cover it? When we cover credit, should we include some history?" These questions and many more were asked during the meeting of a Small Business Management advisory committee with personnel of the State Education Department. The committee knew well the problems facing the small businessman. They pooled their knowledge and produced a set of practical guidelines for updating the Small Business Management course outline, originally published in 1955 by the Department. This teacher's guide was then developed from the guidelines.

This guide is suggestive only--use of it is not mandatory. Any school district offering a course in Small Business Management is free to determine the number of sessions in the course and the length of each session. Five evening sessions, each 2 hours long, has been found to work satisfactorily in this course. Six lessons are given in this edition; if a course is to have only five lessons, a choice can be made from the six.

The Department of Commerce, either when contacted directly or through the Bureau of Business and Distributive Education, will select discussion leaders for the classes and provide them with teaching materials and information about the business activity of the community in which the class is being held. That department will also provide a kit of instructional materials for each member of the class and, if the school district wishes, a certificate of completion for each student who completes the course.

The original versions of Lessons 1, 4, and 5 were written by Jules Mirel, president of Jules Mirel Advertising Agency, Roslyn Heights; Lessons 2 and 3 by Professor Charles J. Kappler, Adirondack Community College, Hudson Falls; Lesson 6 by F. Bennett Cody, vice-president and treasurer, Luckey Platt & Company, Poughkeepsie. All six lessons were then rewritten by Mr. Mirel to bring them into the present style.

Appreciation is expressed to Dr. E. John Gradoni, Supervisor, and John Brophy, Associate, both in the Bureau of Business and Distributive Education, for reviewing the final manuscript. E. Noah Gould, Associate in the Bureau of Continuing Education Curriculum Development, guided the development of this teacher's guide. Earl W. Golden, temporary Assistant in Curriculum Development, edited the manuscript and prepared it for printing.

HERBERT BOTHAMLEY, *Chief*
*Bureau of Continuing Education*
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# INTRODUCTION

Kolinsky can't understand what's wrong with his business. He put all his money into it but he isn't getting anything out. Smith reminisces about the old days before the shopping centers that are, he says, slowly draining his lifeblood. Both men need help. Do they know where to get it? Do they even know that help exists? Perhaps they're hopeless as businessmen and cannot profit from any help. On the other hand, perhaps they can be taught how to change their thinking and their firmly established patterns of action. If so, this course in Small Business Management will help them because it stresses the importance of closely examining some important factors in business success: personality, financing, bookkeeping, merchandising and selling, advertising, credit and collection.

Many small businessmen don't have the insight or training to recognize an obvious shortcoming, so they bump along from day to day and imagine that outside forces are conspiring against them, forces like fate, the stars, or the Government. How difficult for the small businessman to say to himself, "I'm the one at fault." Nevertheless, he must see his two selves, the man he thinks he is and the man that he is.

Here then is the instructor's major job: to make the small businessman see. There are a number of teaching suggestions in this course outline which can be used, but the teacher will undoubtedly want to try his own methods also. He has to pick up his students from where they stand and advance them from there. Furthermore, in a course like this with students who own a business or are working in business, the teacher must emphasize practical problems. Not to be overlooked are the many teaching materials that students themselves bring to class.

This 1968 edition of Small Business Management shows the increasing complexity of carrying on a small business in New York State today. Succeeding in business without really trying is clearly not its theme. The outline stresses throughout that making a business succeed takes long hours of work and long periods of uncertainty. Nobody can guarantee that a business will succeed but this outline can steer the small businessman in the right direction. Each of the six lessons is designed for a 2-hour class session, and each is to be taught by a different person, an expert in the subject.

As this bulletin goes to press Part II is being written and will be published when completed. If instructors or others using this teacher's guide have any comments about it, the Bureau of Continuing Education Curriculum Development will be glad to receive them.

HOBART H. CONOVER, *Chief*
*Bureau of Business and*
*Distributive Education*

JOHN E. WHITCRAFT, *Director*
*Division of Occupational Education*

C O N T E N T S


| | Page |
|---|---|
| Foreword | iii |
| Introduction | iv |
| Lesson 1 Reasons for Success in Small Business Management | 1 |
| Lesson 2 Sources for Obtaining Money | 11 |
| Lesson 3 Recordkeeping | 21 |
| Lesson 4 Marketing and Selling | 28 |
| Lesson 5 Advertising and Sales Promotion | 37 |
| Lesson 6 Credit and Collections | 53 |

## A MEETING OF THE SMALL BUSINESS MANAGEMENT ADVISORY COMMITTEE

A department store vice-president, a professor of business, the president of an advertising agency, and representatives of the State Department of Commerce and the U.S. Small Business Administration meet with representatives of the State Education Department to plan the teacher's guide.

# 1

## REASONS FOR SUCCESS IN SMALL BUSINESS MANAGEMENT

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| *YOU'RE NOT YOUR OWN BOSS!*<br><br>The operator of a small business has one of the toughest jobs in the world. He nows that anyone who goes into business just to be independent, to be his own boss, to be the master of his own fate, is in for a shock. | *EXPLAIN IN DETAIL WHY PEOPLE WHO START THEIR OWN BUSINESSES JUST TO BE "INDEPENDENT" ARE IN FOR A SHOCK.* |
| *HERE ARE JUST A FEW OF YOUR BOSSES:*<br><br>Local, State, and Federal governments<br><br>Suppliers (manufacturers, jobbers) who control your materials and often your warehousing, credit, and sales policy<br><br>The bank...or the people who loaned you money to go into business<br><br>The cycle of the seasons and the ups and downs of your market<br><br>Your family...But show business isn't the only place where the show must go on. You can't afford to close up for golf, fishing, children's tonsillectomies, or spring fever. You may even have to forget vacations for a few years. And there will be more than one cold supper because you took the time to help a customer get an extra spool of thread or helped another one make his train.<br><br>Your customer...No matter how inconsequential your customer's request may seem, comply with it and add a smile. You are in business to serve your customer. You come second. | *SET THE TENOR OF THIS PART OF THE LESSON BY EMPHASIZING THE NUMBER OF FORCES TEARING AWAY AT THE INDEPENDENT'S INDEPENDENCE.* |

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| *PEOPLE WHO RUN THEIR OWN BUSINESSES MUST HAVE AMONG OTHER QUALITIES A BALANCED PERSONALITY, AGGRESSIVE YET DIPLOMATIC. THE EXPERTS SAY THAT HERE IS WHERE MANY OF US MAKE OUR MISTAKES:* | *BE TACTFUL IN THE AREAS OF PERSONALITY AND PERSONAL MISTAKES: YOU WILL UNDOUBTEDLY HIT ON SOME EXPOSED NERVES WHEN YOU BEGIN CATALOGUING BAD PERSONALITY TRAITS AND OTHER REASONS WHY BUSINESSMEN SOMETIMES FALL ON THEIR FACES.* |
| Failure to keep cool in a crisis--engaging in a silly fight with a customer and then losing him | |
| Not developing our personality--being negative instead of affirmative and outgoing. Remember, our customers need cheering up. | |
| Inability to adapt to changing conditions | |
| Laziness...It's easy to sit around thinking about making millions when we should be putting the stock in order. | *USE "OUR" TO INCLUDE YOURSELF IN THE MISTAKE BIN. IT WOULDN'T TAKE MUCH TO RUFFLE THE STUDENTS WHOSE ERRORS ARE LINED UP IN FRONT OF THEM LIKE A ROGUE'S GALLERY. YOU DON'T WANT TO RISK LOSING YOUR STUDENTS. A GOOD WAY TO GET THE CLASS ON YOUR SIDE IS TO ASK ALL THOSE WHO THINK THEY HAVE NO FAULTS TO RAISE THEIR HANDS. USUALLY YOU WILL GET A GOOD LAUGH. THEN ASK IF ANYONE THINKS HE CAN IMPROVE HIMSELF. WHILE CLASS MEMBERS ARE RAISING THEIR HANDS, YOU SHOULD RAISE BOTH OF YOURS. THIS TECHNIQUE HELPS TO BREAK THE ICE.* |
| Running away from our financial problems. We should call our supplier and tell him if we're going to be late paying our bill this month, instead of waiting for him to call us. | |

Taking too much salary out of the business

Giving credit to bad risks

Running the business as a sideline. Very few succeed, so we should carefully weigh the stories we hear about the sweet little operation making thousands with only a few hours of work.

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|

THE STORY OF J. BROWN & SON

Jim Brown felt the excitement of being back home. He had just dropped his wife off at their house after traveling around the country for a year on a vacation he had planned for 30 years--ever since he had opened his hardware business. He was driving to the store to surprise his son Pete, who had taken over while they were away. He felt good that Pete was able to go through high school and college and enjoy himself, the way it's supposed to be. These were good times for young people, easier than his own youth. College took the grunt out of life. Pete was able to take over without a hitch and judging by the letters and telephone calls from Pete early in the spring the business was better than ever.

*THIS EPISODE ABOUT THE NEED FOR GOOD MANAGEMENT CAN BE READ TO THE CLASS OR TOLD TO THEM WITH EMBELLISHMENTS OF YOUR OWN.*

Jim pulled into the store parking lot and surveyed the storefront briefly. His eye caught a broken pane in one of the upper windows. When Jim walked into the store, he froze in the doorway. The floor was filthy. There were great gaps of space on the shelving and half of the nail bins were empty. Jim remained still for a few more seconds and then exploded, "Pete!"

Pete came out of the back office.

"Dad! When did you get back?"

"What do you call this? What's going on here!" roared Jim.

"I don't know what happened, Dad. Everything was great. Really. I even had to hire two part-timers. Then everything went crazy. I started having trouble with the bank and some of the suppliers got nasty because I was a little late with a few of the bills."

Jim looked at the empty boxes in the aisles. Many items were unmarked and parts of the store were dark.

"Did the suppliers cut off your bulb and broom supply, too?" said Jim.

*BEGIN A DISCUSSION OF THE PROBLEMS CREATED IN THE EPISODE BY FIXING THE BLAME FOR WHAT HAPPENED TO JIM'S BUSINESS ON JIM HIMSELF. JIM ASSUMED THAT PETE WOULD WORK LONG HOURS, KEEP ACCURATE BOOKS, MAINTAIN GOOD RELATIONS WITH HIS SUPPLIERS, WATCH HIS STOCK CAREFULLY, AND CARE FOR ESTABLISHED CUSTOMERS. IT WAS A FAULTY ASSUMPTION. JIM'S MAJOR MISTAKE WAS NOT TRAINING HIS SON TO BE A GOOD MANAGER.*

*ASK THE CLASS TO RELATE SOME OF THEIR OWN SIMILAR EXPERIENCES.*

"No, what do you mean?"

"I mean I've been kidding myself," said Jim.

*YOU CANNOT SUCCEED UNLESS YOU LEARN TO BE A GOOD MANAGER!*

*STRESS THE IMPORTANCE OF GOOD MANAGEMENT AND REPEAT THE LESSON TAUGHT IN J. BROWN & SON.*

*WHAT ARE SOME OF THE STRENGTHS THAT MAKE A GOOD MANAGER?*

*USING THE STRENGTHS LISTED ON THIS PAGE AND THE FOLLOWING PAGES AS A GUIDE, EMPHASIZE HOW IMPORTANT IT IS FOR THE BUSINESSMAN TO DEVELOP THESE CHARACTER TRAITS. GIVE EXAMPLES FROM YOUR OWN EXPERIENCE ABOUT WHAT IMPACT THE PRESENCE OR ABSENCE OF THESE QUALITIES HAS HAD ON BUSINESSMEN.*

PLANNING

Prepare for change: in your staff, in your neighborhood, or in having a new competitor open up near you to bid for your customers.

Project what the next year, the next five, the next ten might look like for your business.

Check projected planning with your staff, your associates, your accountant, your bank, your fellow tradespeople, and fellow professionals to see what they think.

Learn to recognize significant facts pointed out by people not as close to your business as you are.

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| ORGANIZATION | |
| Structure your business organization. Who will do the buying? Who will pay the bills? Who will collect the bills? Even in a one-man operation you must organize each responsibility in the business. | *SOME SMALL BUSINESSMEN, ESPECIALLY THOSE IN A ONE-MAN OPERATION, ARE SO USED TO DOING THE JOBS PERFORMED BY A SEPARATE STAFF IN LARGER OPERATIONS THAT THEY DON'T GIVE MUCH THOUGHT TO THEIR ORGANIZATIONAL ABILITY. WHEN SOMETHING COMES UP, THEY CAN TAKE CARE OF IT QUICKLY AND EFFICIENTLY BECAUSE OF A BUILT-IN MECHANISM THAT MAKES THEM GOOD BUSINESSMEN. THIS APPROACH MAY WORK FOR SOME BUT IT CAN BE DISASTROUS FOR MANY. YOU SHOULD MAKE IT CLEAR THAT ORGANIZATION STARTS IN THE HEAD, NOT OFF THE TOP OF IT.* |
| Establish your policies and decide who carries them out. | |
| Train your employees to do the job you want them to do. | |
| LEADERSHIP | |
| Set the example. A good leader is firm, frank, honest, enthusiastic, and optimistic. | |
| Explain each employee's duties and stress how important his job is for overall success. | |
| Give orders simply and directly. Explain exactly what you want. | |
| Don't give anyone more work than he can handle. | |
| If you give an employee responsibility, also give him the authority to carry it | *WHEN YOU ARE DISCUSSING LEADERSHIP STRESS THE FACT THAT KNOWING HOW TO GIVE ORDERS IS A DIFFICULT SKILL TO LEARN AND WORTH ANY EXTRA EFFORT REQUIRED TO MASTER IT.* |

out. And don't dog his heels. You gave him the job. Let him complete it.

*THERE ARE SOME OBVIOUS PARALLELS BETWEEN THE TEAM APPROACH TO FOOTBALL AND THE SMALL BUSINESS. TRY NOT TO OVERWORK THEM. TEAMWORK IS ESSENTIAL IN EVERY BUSINESS, BUT TEAM PLAY IN SPORTS HAS THE ADVANTAGE OF A FAST REWARD. THE GAME IS EITHER WON OR LOST IN AN HOUR OR SO. WINNING OR LOSING IN BUSINESS CAN TAKE YEARS. SO YOU SHOULD EMPHASIZE THE IMPORTANCE OF KEEPING THE MORALE OF THE STAFF HIGH. AND KEEPING THE STAFF WORKING AS A TEAM DESPITE THE INTERNAL COMPETITION FOR FAVOR, POSITION, OR RAISES IS A DEMANDING JOB FOR THE SMALL BUSINESSMAN. YOU SHOULD TELL ABOUT YOUR OWN EXPERIENCES IN THIS AREA AND ALSO CALL ON CLASS MEMBERS TO TELL THEIRS.*

## COORDINATING YOUR STAFF

Be sure to explain what part the staff plays in the complete picture. A man who receives your goods, marks it, brings it up to the floor, and distributes it is just as important as the man who delivers the goods to the customer's house or the clerk who sells it.

Show what went right and what went wrong with a sale and invite criticism from your staff. Once an error has been aired in public, there is less chance that it will happen again.

## CONTROL

Determine acceptable business standards and procedures. For example, how should a sales check be written so there can be no misunderstanding?

Check the results of your procedures so you can learn from your errors. If the results are not good enough, evaluate your approach. Be open-minded and try a different approach if the facts warrant it.

*THE SOURCE OF THE BUSINESSMAN'S CONTROL MAY RANGE FROM THE ADVICE HE GETS FROM A MANAGEMENT CONSULTANT TO THE ADVICE HE RECEIVES FROM HIS WIFE. BUT HE HAS THE ULTIMATE RESPONSIBILITY. SHOW THE IMPORTANT PART THE OTHER STRENGTHS OF A GOOD MANAGER PLAY IN CONTROL.*

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| Make your corrections kindly but firmly, and make it plain that you expect improvement if the person wants to have a future with you. | *YOU SHOULD END THIS LESSON ON A NOTE OF HIGH ENCOURAGEMENT.* |
| *CAN "BIG BUSINESS" BE BEATEN?*<br><br>Perhaps not beaten but the small businessman can compete effectively. Some big businesses have lost the personal touch. The customer disenchanted with certain giant chain stores and their indifferent salesclerks who don't know their inventory and who couldn't care less about emergency deliveries or special orders, will return to the independent for the special care he is equipped to provide.<br><br>As an independent you are in a position to take the extra time and give the extra effort that clerks in some of the big businesses are unwilling or unable to give.<br><br>Your suppliers protect their markets by providing information, advertising help, and money. Take advantage of this. But to get it you must ask for it.<br><br>For example, every new refrigerator has a $10 bill slapped on it for advertising, as it leaves the factory. But to get the $10 bill you must ask for it and then use it wisely in your local newspaper.<br><br>Manufacturers of soft goods, garden tools, and pet supplies have advertising money for you. But if you don't ask for it and insist on it your competitor is going to get it. | *SHOW THAT THERE IS GREAT HOPE FOR THE INDEPENDENT. INSPIRE HIM TO COMPETE WITH INTELLIGENCE AND DETERMINATION.* |
| *HOW YOU CAN COMPETE WITH "BIG BUSINESS"*<br><br>You can join a trade association, a cooperative buying service, or some other buying office. This will give you the advantage of the latest trend in merchandise, the newest approach in services, or the wisest way to get your bills collected. | *TOO OFTEN THE SMALL BUSINESSMAN NEVER GOES OUT TO MAKE BUSINESS CONTACTS. HE STAYS IN THE SHOP ALL DAY, 6 DAYS A WEEK. SUGGEST TO HIM THAT HE CAN HELP HIS BUSINESS BY GOING OUT AND MEETING PEOPLE BUT BE PREPARED TO HEAR AND COUNTER HIS EXCUSES ABOUT NOT BEING ABLE TO GET AWAY. MAKE HIM SEE THAT HAVING LUNCH WITH THE LOCAL CHAMBER OF COMMERCE OR OTHER LOCAL COMMUNITY AND TRADE GROUPS WILL BROADEN HIS PERSPECTIVE.* |

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|

You can talk to people in the same line of business in neighboring towns or other states when you meet them at trade conventions, and form a group to take advantage of discount buying, cooperative buying, and advertising.

*KEEP THE "UPBEAT." YOUR JOB NOW IS TO ENCOURAGE YOUR CLASS AND MAKE THEM WANT TO RETURN.*

You can go to school to learn more about your job as a manager, and in discussing mutual problems with other independent managers find answers that will help you in your business.

You can learn to know yourself--your strengths and your shortcomings. You can correct yourself and hire help to strengthen your weak areas.

You can capitalize on your flexibility--something most bigger businesses do not have. You need not consult a board of directors to enlarge a department. You can do it yourself.

You can begin to plan. You'll find many planning hints in the lessons to follow this one. Your teachers will show you the basic structures for planning. Use your own commonsense and plan ahead. Remember, better a poor plan than none at all--because you can always improve on some plan, no matter how bad. But you cannot improve on "no plan."

*TELL THE CLASS THAT THE LATE CARDINAL SPELLMAN HAD A TOUGH TIME GETTING AHEAD BECAUSE HIS SUPERIORS KEPT GIVING HIM UNIMPORTANT AND HUMDRUM JOBS. HE KEPT HIS TEMPER AND EXAMINED HIMSELF FOR SHORTCOMINGS. HE KEPT ON READING AND LEARNING. WHEN OPPORTUNITY KNOCKED HE WAS READY. HE TOLD REPORTERS THAT WHEN HE WAS DISCOURAGED HE WORKED HARDER AT HIS JOB INSTEAD OF LOOKING FOR AN EXCUSE TO DODGE IT.*

You can get advice from your accountant or lawyer about government regulations. In some cases a phone call will do it. But in most cases it is wiser to sit down and have a chat with one or both. And listen carefully. You're paying for it. Don't try to tell them what to do.

If you are willing to learn

If you are willing to accept minor and major difficulties

If you are willing to educate yourself

If you are willing to grow through
trial and error

*THEN YOU HAVE A GOOD CHANCE OF SUCCESS.*

## S U M M A R Y

- As a small businessman you are subject to the rules and regulations of:
  Local and State Governments
  Your suppliers
  Your bank or financial advisors
  The cycle of the seasons
  Your own personal life and family
  Your customers

- People who run their own businesses must have a mature, balanced personality--aggressive yet diplomatic.

- You must learn to be a good manager:
  Pick good assistants and teach them your philosophy of business.
  Balance close supervision of your assistants with some freedom to go ahead on their own.

- You must plan for the next season, the next year, the next 5 years, after a careful analysis of your own trends over the last few years.

- You must set up your own basic policies and then decide who has the right and duty to carry out those policies.

- As a leader of your organization (no matter how small) you must set up a working organization with yourself as an example. Your people will have more faith in you if you are purposive, intelligent, honest.

- You must coordinate your organization so that each one knows who to report to, and each one knows how he fits into the overall pattern.

- Always control your organization by watching for errors in procedure and correcting them.

- Go to school, join a buying organization, give all the little attentions to your customer that big business cannot. And persevere to get the best organization you can.

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Note: Also see Other Teaching Materials at the end of Lesson 6.

# 2

## SOURCES FOR OBTAINING MONEY

COURSE CONTENT

*WHAT DO YOU NEED MONEY FOR?*

Buying a going business
Starting a business from scratch
Equipment, inventory, and supplies
Rent, phone, utilities
Operating capital
Market growth and physical expansion
Added help
Advertising

*WHAT ARE THE SOURCES FOR OBTAINING MONEY?*

Personal savings
Banks
Government agencies
Finance companies
Building and loan associations
Suppliers

*WHICH ONE OF THE BASIC FORMS OF CAPITAL SUITS YOUR PRESENT NEEDS?*

SHORT TERM LOANS

Short term loans are made for 30, 60, and 90 days and are essentially working capital loans of modest amounts for businesses having a seasonal aspect. A bank will charge 6 or 7 percent interest.

The short term loan is generally unsecured and is used to build up inventory so that you will have the goods you need when the season is on. (If you are a corporation, the principals will have to guarantee their personal liability.) When your accounts receivable are converted into cash, you repay the loan. So you should carefully estimate when you will be getting a cash return on your goods before deciding how long you want the loan to run.

TEACHING SUGGESTIONS

*THIS LESSON CAN HELP CLEAR UP A MONUMENTAL HEADACHE THAT HAS PLAGUED MANY BUSINESSMEN. THEY KNOW THAT OBTAINING MONEY IS TOUGH. BUT IF THERE IS ONE REASON WHY BUSINESSMEN FAIL TO OBTAIN MONEY IT IS PROBABLY THAT THEY DO NOT FULLY UNDERSTAND THEIR FINANCIAL POSTURE. YOU SHOULD THEREFORE DEVELOP THIS LESSON BY EXPLAINING THE IMPLICATIONS OF THE BUSINESSMAN'S FINANCIAL POSTURE SO THAT WHEN HE DOES APPLY FOR A LOAN HE WILL HAVE ALL THE ANSWERS.*

*YOU MIGHT POINT OUT THAT BORROWING MONEY FROM FRIENDS OR RELATIONS IS NOT A GOOD POLICY.*

The bank will want to be sure that you know what you're doing so that it can be sure you'll repay the money. No lending institution will carry you for humanitarian reasons no matter how delightful or sincere you happen to be. They want their money.

If you do get into a temporary jam, however, call the bank at least a week beforehand to let them know you will be late with your payment. Don't wait for the bank to call you. That ringing phone will be the death knell for your credit standing. If you have a valid reason and tell the bank about your problem honestly, they will generally try to help you.

*LET MEMBERS OF THE CLASS RELATE THE EXPERIENCES THEY HAVE HAD DURING LOAN INTERVIEWS. SOME MAY HAVE GONE IN WITH THE ATTITUDE OF "WHAT CAN I LOSE?" AND RECEIVED A LOAN. OTHERS MAY HAVE GONE IN EXPECTING THE RED CARPET TREATMENT AND SKIDDED ON A BANANA PEEL. TRY TO DETERMINE THE REASONS FOR SUCCESS OR FAILURE IN EACH CASE BY HAVING THE STUDENTS INTERPRET THEIR FINANCIAL STANDING FROM THE BANK'S POINT OF VIEW. THIS WILL GIVE THE STUDENTS SOME TRAINING IN THE IMPORTANT SKILL OF INTERPRETING FINANCIAL STATUS.*

*APPOINTING ONE STUDENT AS THE BANKER AND ANOTHER AS THE BORROWER FOR A PLAYLET IN FRONT OF THE CLASS IS AN EFFECTIVE METHOD. YOU MIGHT EVEN ACT THE PART OF THE BANKER TO MAKE SURE THE RIGHT QUESTIONS ARE ASKED.*

## TERM LOANS

The term loan is an installment loan requiring monthly payments. Depending on the purpose, the loan can run for as long as 20 years. The bank will ask for security to help offset any loss to them in case you can't repay the money. Real estate is one form of security--your house or some other property in your possession or your family's. If you do put up real estate as security and later run into trouble, the bank will generally take the property away from you if there is no choice. So think carefully about the risk.

Another way to guarantee a loan is to give the bank an interest in your equipment and machinery. Here again you are giving the bank the legal right to take your property if you don't fulfill the terms of the loan. Generally, the bank assesses the equipment at about 60 percent of its original cost.

*MOST SMALL BUSINESSMEN KNOW ONLY ABOUT THE SHORT-TERM LOAN. WHEN DISCUSSING TERM LOANS, THEREFORE, BE SURE TO ACQUAINT THE STUDENTS WITH THE DIFFERENT FORMS OF COLLATERAL.*

## NEW EQUIPMENT

Suppose you are buying new equipment. For what period can you obtain a loan? The bank will draw up a note running for 5 to 7 years--no longer. But they will give you between 75 and 100 percent of the cost of the equipment.

*WORK OUT SOME EXAMPLES OF TERM LOANS ON THE CHALKBOARD. USE SPECIFIC ITEMS LIKE REAL ESTATE OR EQUIPMENT TO SHOW THE RATES CHARGED BY THE VARIOUS MONEY SOURCES.*

A second approach to buying your equipment is to finance it through the manufacturer. The interest rate will be higher than the bank's but it may be easier to obtain the loan. Also you might want to rent the equipment. More and more firms are doing this.

## REAL ESTATE

Longer loan periods can be obtained for real estate purchases--20 years or more. But you will only be able to obtain 70 percent of the appraised value. And you will probably have to go to a savings bank since commercial banks are reluctant to give mortgage loans on commercial property.

*YOU CAN ALSO OBTAIN A PREPARED LOAN TABLE FROM A BANK. DISCUSS IT IN CLASS AND EMPHASIZE THE RELATIONSHIP BETWEEN THE LENGTH OF TIME THE LOAN RUNS AND THE INTEREST CHARGED. ENCOURAGE TALK ABOUT THE KINDS OF LOANS THEY THINK THEY WILL NEED OR HAVE APPLIED FOR, AND ASK THEM TO EXPLAIN WHY THEY HAVE CHOSEN A PARTICULAR KIND OF LOAN.*

Remember, you can't charm a bank as an alternative to paying them the money they are entitled to when it's due. This does not mean that you have to run scared and give up on trying to get money when you need it. Being too conservative is just as bad as being too much of a gambler. But the bank will look askance at any situation that does not guarantee a return of its money.

*MOST SMALL BUSINESSMEN THINK LAWYERS OR ACCOUNTANTS ARE AN UNNECESSARY EXPENSE. MAKE SURE THE CLASS KNOWS HOW IMPORTANT IT IS TO TALK OVER A LOAN BEFOREHAND WITH A PROFESSIONAL.*

Remember also that if you can't meet your obligation on time, explain why and ask the bank for an extension.

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| In any case it is important to discuss long term financing with both your lawyer and accountant beforehand. They can tell you how to put your best foot forward. | *PROBABLY NONE OF THE STUDENTS IS A MATCH FOR A TRAINED BANKER. CONVINCE THEM OF THIS BY POINTING OUT THAT IT IS THE BANK'S LOAN EXPERIENCE NOT THE APPLICANT'S LACK OF ABILITY THAT MAKES IT NECESSARY TO CONSULT A PROFESSIONAL.* |

## EQUITY CAPITAL

| | |
|---|---|
| Equity capital is an investment in your business. If you don't have enough money yourself, your relatives or friends may be interested in a share of your business. You can take them in as partners or you can incorporate your business and make them stockholders. In either case you will need a lawyer. | *DIAGRAMS ON THE CHALKBOARD, DEPICTING THE ORGANIZATION OF A PARTNERSHIP AND CORPORATION WOULD HELP TO EXPLAIN ENTERPRISES USING EQUITY CAPITAL.* |
| If you form a partnership, be sure that the partnership agreement spells out the duties and responsibilities of each partner and the method of distributing profits. You should realize that every partner in a general partnership is responsible for all debts of the partnership and for all obligations undertaken by any partner in the name of the business. Limited partnerships, in which one or more partners remain inactive and thus limit their risk, are not bound by the same rules as a general partnership. | *EMPHASIZE THE IMPORTANCE OF CONSULTING A LAWYER BEFORE ENTERING INTO A BUSINESS ARRANGEMENT INVOLVING EQUITY CAPITAL. FEARING BIG FEES, THE SMALL BUSINESSMAN MAY BE RELUCTANT TO GO TO A LAWYER, SO YOU MUST CONVINCE HIM THAT THE LAWYER'S FEES ARE NOT NECESSARILY HIGH AND THAT, MORE IMPORTANT, HE MUST PROTECT HIMSELF.* |
| The liability of each shareholder in a corporation is limited to the amount he puts into the business. But there are often disadvantages from the tax angle. And there is the burden of making out numerous reports. Consult your lawyer about what is best for your particular case. | *WHILE DISCUSSING PARTNERSHIPS YOU MIGHT WANT TO DISCUSS THE HUMAN SIDE. TELL THE STUDENTS ABOUT SOME OF THE HAZARDS: SUSPICION, BLAME, OPPORTUNISM, INTERFERENCE BY FAMILIES, AND INCOMPATI-* |

*PROFILES OF OTHER MONEY SOURCES*

*BILITY. BEGIN A DISCUSSION BY CALLING ON MEMBERS WHO HAVE HAD FIRSTHAND EXPERIENCE.*

*WARN THE CLASS ABOUT THE DESPERATE STATE OF MIND THAT SENDS THE SMALL BUSINESSMAN TO THE FINANCE COMPANY WHERE HE SIGNS UP FOR WHAT HE THINKS IS A LIFE PRESERVER. BUT INSTEAD OF SAVING HIM, THE LOAN PULLS HIM UNDER. MANY A SMALL BUSINESSMAN HAS BEEN SO BADLY HURT THIS WAY THAT HE WORKS ALL HIS LIFE TRYING TO PAY BACK AN ILL-ADVISED LOAN.*

## FINANCE COMPANIES

Finance companies usually charge much more interest than the average bank. Generally the cost of the money sold is in proportion to the risk taken.

But the higher interest rate does not automatically rule out the finance company. Just go in with your eyes open. They may not ask for cosigners or endorsers, but like a bank they may ask you to put up your car, your furniture, your property, or any new equipment you may buy for your business.

If there is something very profitable coming up in your business, don't hesitate to deal with the finance company when you need money fast.

## INSURANCE COMPANIES

*POINT OUT TO YOUR CLASS THAT THERE IS NOTHING WRONG WITH INSURANCE LOANS. BUT THERE SHOULD BE A PROGRAM FOR REPAYMENT, NO MATTER HOW SLOWLY, BECAUSE THE FAMILY MUST BE PROTECTED.*

If you or anyone else in your family has a life insurance policy, that policy has a "cash surrender value" you can borrow on.

The problem here is that generally there is no great pressure to repay the loan and you end up without a policy or one worth very little. So before you borrow your own money (at an interest rate

of about 6 percent!) look hard for other sources.

## TRADE CREDIT

If you are buying "soft goods," that is, textile materials or clothes, a manufacturer can extend payment terms to you, generally from 10 to 30 days--even 60 days. Almost every trade has its own credit association--one for suits and coats, one for daytime dresses, one for bridal costumes, and so on. At the beginning, especially, you may find it difficult to get any trade credit. But after you have shown that you pay your bills on time, the 30 or 60 days may be extended to you. Don't let your bills run over the time limit. The manufacturer will not let you get away with it.

*INDICATE TO THE CLASS THAT THEY CAN OFTEN GET MORE CREDIT FROM THEIR SUPPLIERS THAN THEY THINK IF THE SUPPLIER IS CONVINCED OF THEIR HONESTY.*

If you are buying "hard goods" like refrigerators or TV sets (one is called "white goods" the other "brown goods"), more lenient credit is usually extended to you because a manufacturer feels he can get more on his hard goods than soft goods, in case a forced sale becomes necessary.

The company that sells you hard goods will very often "floor plan" your inventory by letting you have enough inventory, and as you pay for each item advancing you backup items from the warehouse in proportion to the amount you have paid for. In this way they cannot get too badly hurt and you have enough goods to do business.

Terms for heavy equipment are longer--sometimes three, four, five, or ten years. But as mentioned, the new wrinkle in heavy goods is renting. And the monthly rental can be applied to the full purchase price of the item.

## SMALL BUSINESS INVESTMENT COMPANIES

SBIC's, as they are called, are a new feature in the money market. They are often more sympathetic to the problems

of the independent than the bank and are more inclined to do business with him.

The easier you get your money, however, the higher the interest rate is apt to be. The SBIC's interest rate--by law--is quite high, running about 12 percent or more. They ask for collateral, and the Federal Government, which licenses them, requires them to show collateral when the inspector comes around to look at their books. But they seem to have a "feel" for the small businessman and they generally are very helpful.

So if you are prepared to pay the price, they are good people to talk with.

*PROVIDE THE STUDENTS WITH THE NAMES AND ADDRESSES OF THE PRIVATE, FEDERAL, AND STATE AGENCIES THAT ARE GOOD SOURCES FOR BORROWING MONEY.*

*SHOW THE STUDENT HOW SUCH AGENCIES AS THE SBIC CAN HELP HIM BUT WARN HIM ABOUT THE FORMS THAT MUST BE FILLED OUT. SUGGEST THAT HE GET HELP FROM A LAWYER OR ACCOUNTANT SINCE HE IS HARDLY QUALIFIED TO FILL OUT THE COMPLICATED FORMS.*

NEW YORK BUSINESS DEVELOPMENT CORPORATION

This corporation was chartered in 1955 by New York State to make medium and long term loans for firms that cannot get loans through banks or other lending institutions.

But don't think they're a pushover. You have to fill out many papers and prove to them you are a good candidate for a loan by showing how responsible you are and proving your ability to repay. The loan procedure involves spreading the risk among several financial institutions. The Corporation really tries to help the small businessman who qualifies.

*MAKE IT CLEAR THAT HE SHOULD HAVE INFORMED TECHNICAL HELP ABOUT HOW TO BEST PRESENT HIS CASE TO THE AUTHORITY OR AGENCY HE IS APPLYING TO.*

*FEDERAL AND STATE AGENCIES*

SMALL BUSINESS ADMINISTRATION

If you cannot obtain money from regular sources you can apply to the Small Business Administration. This is a Federal agency providing aid in two ways--either directly with an SBA loan or by recommending a loan for you. You must fill out many forms and wait until they pass on your application. Have someone, preferably your accountant, help you with the paperwork.

*RELATE THE ACCOUNT OF HOW A MAN TRYING FOR AN SBA LOAN SO IMPRESSED A BANKER BY HIS PERSEVERANCE THAT THE BANKER LENT HIM $4000 IN SEPARATE LOANS TO RUN A ROADSIDE DAIRY OPERATION UNTIL THE SBA LOAN CAME THROUGH. THE SBA LOAN*

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| AREA DEVELOPMENT ADMINISTRATION | |
| The Area Development Administration provides low-interest, long term loans to help establish new firms or to encourage existing firms to expand in redevelopment areas. This is for you if you plan to go into an area which the Federal Government would like to help--an area having a problem of joblessness or one undergoing an economic crisis. But it is generally for a large or a moderate-sized firm, not for a one-man business. | *TOOK QUITE SOME TIME TO GET BUT NOW THE BUSINESS IS RUNNING ON AN EVEN KEEL. EMPHASIZE THAT THE SMALL BUSINESSMAN SHOULD NOT DESPAIR BECAUSE HE CAN ALWAYS IMPRESS SOMEONE IF HE IS DILIGENT AND HONEST.* |
| NEW YORK JOB DEVELOPMENT AUTHORITY | |
| The New York Job Development Authority only sanctions loans to local, nonprofit industrial development corporations. Like its Federal counterpart the ADA, it seeks to stimulate industry in economically rundown areas. One- or two-man businesses are not the kind that the authority is designed for. | |
| *HOW TO PUT YOUR BEST FOOT FORWARD WHEN APPLYING FOR A LOAN* | *DESCRIBE TWO TYPES OF BORROWERS: THE ONE WHO IS STRUCK DUMB IN THE PRESENCE OF THE BANKER AND THE OTHER WHO COMES IN WITH A FANCIFUL TALE AND EXPECTS THE BANKER TO BELIEVE HIM.* |
| You must appear healthy and confident when you apply for a loan. The response to your needs will be better. | |
| Before you go in for a loan sit down with an accountant or lawyer and draw up a list of your assets. Being young, healthy, and willing to work are assets. If you are known as a man who pays his bills, that is an asset. And if you are active in local charitable and community drives, that is an asset. | *EXPLAIN THE VALUE OF TRUTH WHEN BORROWING MONEY. POINT OUT THAT ALMOST ANY SMALL LOCAL BANK WILL GIVE A LOCAL MAN A SMALL LOAN TO GET STARTED, IF THEY FEEL HE IS TRUSTWORTHY.* |
| Then describe your business--how long you have been in it, the people you've done business with, and the people who know you as a responsible businessman. | |
| Make up a financial statement. Generally, your bank will give you a form to fill out, but go over it with your accountant or lawyer first so that you don't make statements that aren't a reflection of the whole picture. A bank or lending institution has | |

heard every story devised by the human mind. So don't think you can fool them. Be honest. No matter how meager your resources may be, your bank will be more inclined to look on your request favorably if you are honest and have a good credit record.

If you think you can fool them, you are in trouble. Tell them the truth. This is the simplest, the most effective, the only way of getting a loan. Come in with the facts--your bank balance, your inventory, and your real problem (overbuying, not collecting your receivables). Tell the truth and you will find your chances for getting a loan are much better.

*"HONESTY IS THE BEST POLICY" IS NOT ONLY AN ETHICAL CONCEPT BUT ALSO AN IMPORTANT BUSINESS CONCEPT. IN DEALING WITH A BANKER, TELL YOUR CLASS, YOU MUST BE HONEST. A BANKER WILL RESPECT THE REQUEST OF A MAN WHO LAYS HIS CARDS ON THE TABLE. ANYHOW, THE BANKER HAS MANY WAYS TO CHECK THE ACCURACY OF A LOAN APPLICATION.*

## S U M M A R Y

- Money is the lifeblood of a business and must be used carefully and well.
- Obtain money from:
  - Personal savings or insurance policies
  - Banks and finance companies
  - Federal or State agencies
  - Building and loan associations
  - Suppliers
- Think carefully before you borrow. Is there any other way you could finance your business instead?
- If you do decide to borrow, other sources of funds are:
  - Short term loans
  - Long term loans and equipment loans
  - Equity capital (an investment in your business)
  - Finance and insurance companies
  - The New York Business Development Corporation
  - The Small Business Administration
  - The Area Development Administration
- In closing go over again the basics in borrowing money:

  Make sure you know exactly how much money you want and the specific purposes for which you plan to use it. Explain clearly to your bank or other money source.

Bring with you a true statement of your assets. If you have no financial assets, say so. Honesty pays in business.

Plan a repayment schedule and explain it to your money source--exactly what dates and amounts are to be repaid, and where you will get the money for the repayments.

Keep your bank or other money source alerted to your financial condition. Tell them about any changes that may occur.

Work hard and repay your loan as early as possible.

*REMEMBER! THERE IS NO SUCH THING AS BORROWING MONEY AND NOT REPAYING IT. BE SURE BEFORE YOU BORROW THAT YOU ARE NOT ENDANGERING YOURSELF AND YOUR FAMILY.*

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Note: Also see Other Teaching Materials at the end of Lesson 6.

# 3

## RECORDKEEPING

COURSE CONTENT

TEACHING SUGGESTIONS

*HOW GOOD IS YOUR MEMORY?*

Is your memory as good as a computer? How much information can your mind store? When you first start a business, you are probably able to store plenty of information in your head. But as a business grows, no matter how good your memory is you can no longer hold all the bits of information. And those loose slips of paper are invariably lost.

So forget how good your memory is. Keep records from the first day of your business. If you don't have a bookkeeper or an accountant, buy a notebook from the five-and-dime and keep a diary of your daily activities.

This simple procedure will save you much money in the future.

*BRING SAMPLES OF SMALL BUSINESS ACCOUNT BOOKS TO CLASS AND EXPLAIN HOW EACH IS USED--CASH BALANCE, SALES, AND PURCHASES.*

*TO PROVE HOW POOR A MEMORY CAN BE ASK THE CLASS HOW MANY READ THE NEWSPAPER THIS MORNING. THEN ASK HOW MANY REMEMBER THE HEADLINES. CHANCES ARE VERY FEW WILL REMEMBER.*

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|

*WHY DO YOU NEED RECORDS?*

To provide information on the status of your business (inventory, bank balance)

To serve as a basis for budgeting and forecasting: What kind of business you expect next season. How much to order. Or how much to borrow for a slow season

To safeguard the assets and profits of the business

*GIVE A DETAILED HISTORY OF A SALES SLIP BY TRACING ITS LIFE FROM THE TIME OF THE SALE UNTIL IT IS DISCARDED.*

*WHAT IS A GOOD RECORDKEEPING SYSTEM?*

A recordkeeping system should be tailored to the needs of the specific business you are in. Since every business has its own peculiarities, you cannot use a standardized form. So when devising your own system, make sure that it is a functional one. It should be easy to use so that either you or your bookkeeper can enter data and your accountant can then put it into proper form for reports.

*BE SURE TO POINT OUT THE MANY FEDERAL AND STATE REQUIREMENTS THAT ADD TO THE SMALL BUSINESSMAN'S RECORDKEEPING DUTIES. AND SINCE THIS IS A COMPLEX AREA, ADVISE YOUR STUDENTS TO GET HELP FROM AN ACCOUNTANT.*

*BUT YOU CAN TEACH THEM THE BASIC ELEMENTS OF SINGLE ENTRY BOOKEEPING. ON THE CHALKBOARD SHOW HOW TO TITLE ONE PAGE OF THE LEDGER "BILLS PAID," ANOTHER "EXPENSES," A THIRD "CASH RECEIVED," A FOURTH "WAGES," AND SO ON. AN ACCOUNTANT CAN CONVERT THESE NOTES INTO A COHERENT BOOKEEPING SYSTEM.*

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| Be sure that the system includes checks and balances to indicate how the business stands at any given time. If anything begins to get out of line--your bank balance, your stock, your payments to government agencies--you will be able to spot it and do something about it right away. | *RECORDKEEPING IS NOT A DYNAMIC SUBJECT LIKE SELLING. MAKING AN ENTRY IN A LEDGER IS CLEARLY NOT AS EXCITING AS MAKING A GOOD SALE, SO YOU WILL HAVE TO WORK ON MOTIVATING YOUR STUDENTS TO SEE THE IMPORTANCE OF GOOD RECORDKEEPING. GIVE EXAMPLES FROM YOUR OWN EXPERIENCE ABOUT THE EFFECTS OF POOR AND GOOD RECORDKEEPING SYSTEMS. AND ADVISE THE CLASS TO MAKE A CAREFUL SELECTION OF A BOOKKEEPER WHEN THE TIME COMES. BOOKKEEPING IS NOT THE KIND OF JOB THAT HE WHO ADDS CAN NECESSARILY DO WELL.* |
| The final test of a good recordkeeping system is its compactness and inexpensiveness. | |
| *SUGGESTIONS FOR IMPLEMENTING A RECORD SYSTEM* | |
| Cash receipts should be checked against registers and deposited intact. | |
| Cash outlays must be proved by check or petty cash voucher. | |
| Payroll expenses required for government reports must be given in detail. | |
| Accounts receivable required for credit information and collection should be clearly noted. | *SHOW HOW KEEPING BILLS IN A SMALL MANILA PORTFOLIO OR A MORE EXPENSIVE ACCORDION FOLDER CAN BE AN ORDERLY SYSTEM. EXPLAIN THAT ON EACH PAID BILL THE DATE PAID AND CHECK NUMBER SHOULD BE RECORDED. ALSO THAT A NOTE SHOULD BE MADE IN THE LEDGER UNDER "BILLS PAID."* |
| Accounts payable must also be noted so that the money to be paid out will be available when needed. | |
| Your fixed assets should be outlined to determine depreciation and control of assets. Any leases, insurance policies, and so on should be kept in a safe to minimize the possible loss of these important papers. | |
| *END PRODUCTS OF THE SYSTEM* | *TAKE NOTHING FOR GRANTED. THE SIMPLEST CONCEPTS MAY OFTEN PROVE BEWILDERING TO MOST OF YOUR CLASS. SO USE SIMPLE LANGUAGE WHENEVER POSSIBLE AND CLARIFY AS YOU GO ALONG.* |
| THE BALANCE SHEET | |
| The balance sheet should be prepared and explained to you by your accountant. It shows the financial condition of your business as of a certain date (quarterly, semi-annually, or annually). It shows your assets, your liabilities, and your net worth. | |

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|

## THE INCOME STATEMENT

The income statement shows:
- Income
- Cost of goods sold
- Gross profit
- Operating expenses: rent, heat, light, insurance, professional services, salaries, supplies, and miscellaneous
- Net profit (or net loss) for a specified length of time

*DUPLICATE AN INCOME STATEMENT AND DISCUSS IT WITH YOUR CLASS. EMPHASIZE ITS IMPORTANCE FOR FILING INCOME TAX, OBTAINING BANK LOANS, CUTTING DOWN ON OVERHEAD, AND EXPANDING OR CONTRACTING THE BUSINESS.*

## READING A FINANCIAL STATEMENT

What is the proportion of net profit?
How is it arrived at?
Is your markup too low?
Are your expenses or salaries too high?
How is this year compared to last? Why?

A financial statement is like a weather chart. It must be read carefully because it shows you what your past business year looked like. It should also indicate any danger signals and should help you plot a better course for the year ahead. If you do not know how to read a financial statement, the easiest way to find out is from your accountant.

*THE SIGNIFICANCE OF THE BALANCE SHEET CAN BE BEST EXPLAINED BY "RATIOS," A COMPARISON OF ONE SET OF FIGURES WITH ANOTHER.*

*NO INFORMATION IS OF ANY VALUE UNLESS THERE IS SOMETHING TO COMPARE IT TO. TEACH YOUR CLASS THE HIGHLY REFINED TECHNIQUE OF UNDERSTANDING THE SIGNIFICANCE OF RATIOS.*

The current ratio is the relation of current assets to current liabilities.

The acid-test ratio is the relation of current assets minus inventory to current liabilities.

The ownership ratio to liabilities is the relation of net worth to liabilities.

The net fixed assets ratio to ownership is the relation of net fixed assets to net worth.

Working capital is the difference between current assets and current liabilities.

*REMEMBER THAT YOU SHOULD TRANSLATE ANY TECHNICAL TERMS INTO LAYMAN'S LANGUAGE. ALTHOUGH SOME OF YOUR CLASS WILL UNDERSTAND WHAT YOU'RE SAYING, MANY WILL BE SWAMPED. STOP FREQUENTLY TO EXPLAIN YOUR POINTS AND KEEP ON ASKING QUESTIONS TO MAKE SURE YOUR CLASS UNDERSTANDS YOU.*

The net profit to net worth ratio is net profit as a percentage of return on net worth.

INCOME STATEMENT RATIOS

Merchandise turnover. This is the cost of sales divided by average inventory. There are many businessmen who consider turnover the most important indicator of their success or failure and feel that the more turnover they get the better their business is.

Gross profit to sales

Expenses to sales

Operating profit to sales

Net profit to sales

OTHER RATIOS

Accounts receivables to sales

How old your receivables are. In other words, after 90 days the chance of collecting your money diminishes.

BUDGETING AND PLANNING

*APATHY AND LACK OF KNOWLEDGE ABOUT BUDGETARY PLANNING MAKE MANY SMALL BUSINESSMEN TARGETS FOR FAILURE. STATE HOW IMPORTANT IT IS FOR THEM TO BORROW THE TECHNIQUES OF THE BIG COMPANIES AND TO APPLY THESE TO THEIR OWN BUSINESSES.*

Provides definite business objectives by estimating income and expenses of the next period

Provides information on variance from estimates and warns of needed changes in the operation of your business

*WRITE $52,000 ON THE CHALKBOARD, CALL IT ESTIMATED SALES FOR A 6-MONTH PERIOD, CROSS IT OUT, AND WRITE $48,000. EXPLAIN THAT ESTIMATES MAY HAVE TO BE ADJUSTED FROM TIME TO TIME, BUT IT IS NECESSARY TO MAKE A BEGINNING ESTIMATE IN ORDER TO PLAN. EMPHASIZE THAT EVEN A BAD PLAN IS BETTER THAN NO PLAN.*

Places responsibility where it belongs--who or what are the people or factors that have resulted in poor performance? Is it a high expense rate, too little advertising, too much interest on loans, or too little emphasis on good down-to-earth storekeeping?

Provides a system for evaluating your policies. Are your policies accomplishing what you set out to do or are you too harsh or unrealistic in your estimates?

## BREAKEVEN POINT

Once you reach your breakeven point, your business goes on to make a profit. In order to arrive at your breakeven point, you must determine the minimum sales volume you need plus expenses. The tendency is always to figure sales higher than they will be and to estimate expenses lower. Try to look at your business from an unprejudiced viewpoint to arrive at a realistic breakeven point. Figure in all the ups and downs of the year. Don't pick a top season or a very slow time of year. Allow for emergencies and you will be in the area of the breakeven point.

*MAKE THIS IMPORTANT LAST POINT: WITHOUT ACCURATE RECORDKEEPING A BUSINESS WILL WALLOW AROUND IN A SEA OF RED INK.*

## SUMMARY

- Records of all kinds are very important to your business. If you do not have an accountant or bookkeeper, buy a notebook from the five-and-dime and start keeping daily records.

- Inventory, bank balance, cash, employee attendance and payment records--all these must be kept in careful fashion.

- Your records must be in a good enough form so that your bookkeeper or accountant or government inspector can easily understand them.

- Ask your accountant to give you an income statement at least twice a year. In that way you will be able to spot any weaknesses in your business--and correct them.

- Never take for granted that you will "remember." Most lawyers keep a daily diary that helps them remember important facts. Do the same and see how useful it will become.

- Use your records to determine the "breakeven point" in your business--the dollar value of sales after which you begin to make a profit.

- FINALLY: No matter how tedious recordkeeping seems to be, the day will come when only one tiny item will pay you back tenfold for your care. Recordkeeping is most important. It is worth the effort--many times over.

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Note: Also see Other Teaching Materials at the end of Lesson 6.

# 4

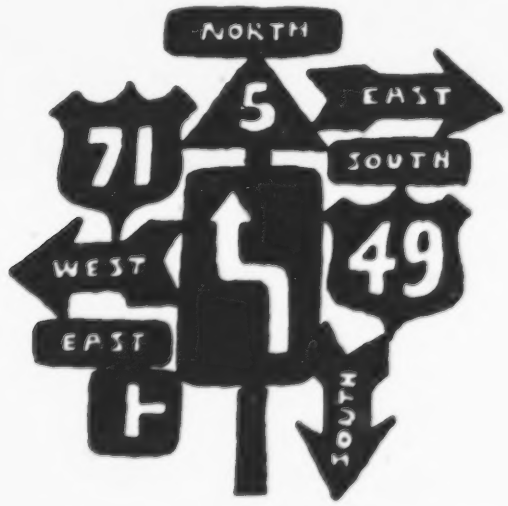
## MARKETING AND SELLING

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| *WHO ARE YOU?*<br><br>You have chosen the small business as the way you want to make your living. Can just anybody run his own business? What gives you the idea that you can do it? | *THIS SHOULD BE AN EXCITING CHAPTER TO EXPLORE WITH YOUR CLASS BECAUSE EVERY SMALL BUSINESSMAN FEELS THAT HE IS A GREAT SALESMAN. HE IDENTIFIES WITH THE GREAT MERCHANT PRINCES OF AMERICA.* |
| | *BEGIN WITH SOME SOUL-SEARCHING BY IDENTIFYING INDIVIDUAL GOALS. THIS WILL HELP WITH YOUR IMPORTANT OBJECTIVE--GETTING THROUGH TO THE CLASS.* |
| To help you decide whether you have the personal qualities needed to run your own show, find out if you know who you are. If you can't come up with an accurate appraisal of yourself, you won't know how to capitalize on your strong points or improve your weak points. Many businessmen fail because they don't know how to get along with partners, associates, employees, or their customers. What kind of person are you? | *TO GET CLASS COLLABORATION HAVE EVERYONE WRITE A THREE- OR FOUR-SENTENCE ANALYSIS OF HIMSELF AND HAND IT IN UNSIGNED. THEN READ EACH ONE TO THE CLASS. IF THEY WISH, LET THEM IDENTIFY THEMSELVES LATER ON. THIS CAN BE A LOT OF FUN AND IT WILL HELP YOUR CLASS GET OFF TO A GOOD START.* |

Calm, cool, collected?
Anxious, impatient, often "hot under the collar?"
Easy, smiling, relaxed?
Hard, grim, extremely sensitive to criticism?
Timid, equivocal, a follower?
Overly generous?
A pinchpenny?
Positive, a "take-over guy?"

Obviously there are some personality traits in the above list that can work against anyone in business. But a personality is a complex assortment of traits. The task is to bring it under control. The personality has to be stabilized so that it can function effectively. There are all types of people running their own businesses but those who succeed have one thing in common--a stable personality.

*WHERE ARE YOU GOING?*




You must have a fairly clear idea about what kind of operation you want to run. You must ask yourself some important questions and consider aspects of the available market. First, how do you want to operate in your job as a small businessman?

Long hours, hard work, sell out early and retire young?

Short hours, low pressure?

*YOU SHOULD NOW BROADEN THE SCOPE OF THIS LESSON BY ASKING THE CLASS TO EXAMINE THEIR WAY OF DOING BUSINESS. YOU ARE LEADING THEM FROM AN EXAMINATION OF THEMSELVES TO A GREATER EXAMINATION OF THEIR TRADING AREA AND THEIR SPECIFIC SERVICE.*

*YOU ARE THUS SLOWLY TEACHING THEM THE BASIC MARKETING STRUCTURE OF THEIR BUSINESS WITHOUT USING BIG WORDS THAT WILL BEWILDER THEM.*

*ASK THE CLASS WHAT THEY THINK MIGHT BE SOME OF THE DRAWBACKS OF 9 TO 5 STORE HOURS IN THE SUBURBS. POINT OUT THAT IN*

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| Live apart from the community where your store is located? | *SOME CASES MORE FLEXIBLE STORE HOURS ARE IMPERATIVE. CITE THE CASE OF A LONG ISLAND WOMAN WHO RAN A SMALL STATIONERY AND GIFT SHOP FROM 9 TO 5 BUT WHEN SHE CHANGED HER HOURS TO MEET THE NEEDS OF COMMUTERS, HER BUSINESS INCREASED THREEFOLD. SHE STAYED OPEN FROM 7 A.M. TO 8:30 A.M. AND FROM 2 P.M. TO 9 P.M. THIS MADE ALL THE DIFFERENCE.* |
| Be close to your community, living in it and engaging in all its civic as well as cultural activities--Red Cross, Better Government, Little Theatre? | |
| You must then consider the community where you will be doing business. Are the people in it:<br>Wealthy?<br>Moderately wealthy?<br>Skilled workers?<br>Unskilled workers?<br>Unskilled workers of foreign birth with difficulty in English? | |
| Now you're ready to decide on the kind of business that will be successful in the community you have chosen and will allow you to operate the way you want. | |
| Low markup, fast turnover, no frills--the discount type of operation | |
| High markup, big ticket items, charge accounts, delivery, liberal return policy, specialty shop atmosphere | |
| Middle class neighborhood store, adjustable policy to fit the needs of your community | |
| Speciality items--wigs, knitting goods, pets, letter service, household cleaning, masseur | |
| You know who you are and what you want out of your business. You know the structure of the community you're going to trade in and what they want. Your success depends on making all these elements compatible with one another. Somewhere along the line you may have to make some compromises. | |
| *INVENTORY*<br><br>Now that you are ready to operate your own business, the first consideration is | *AT THIS POINT YOU HAVE GAINED THE CONFIDENCE OF YOUR CLASS. YOU CAN NOW GET DOWN TO THE SPECIFICS* |

having a well-proportioned inventory. Here are some tips on how to obtain and keep a good inventory:

Check your best-selling items and buy heavily if an item is moving. Stock it in depth, breadth, color, sizes, and styles. A half dozen fast moving items a season can make your year.

Don't become a warehouse for the manufacturer. Dead inventory is dead sales, dead money, dead you.

Mark down early if an item is not moving because your earliest markdown is your cheapest. Every day you hold it you lose money. If it doesn't sell at $2.98, try $1.98. If that doesn't do it, try 99 cents, then 49 cents. If they still don't want it, give it to the Salvation Army and forget it.

Ask your manufacturer to take slow-moving merchandise back. Be fair to him but insist that he be fair to you. And if he doesn't respond, change manufacturers.

*KEEP YOUR INVENTORY FRESH AND SEASONABLE*

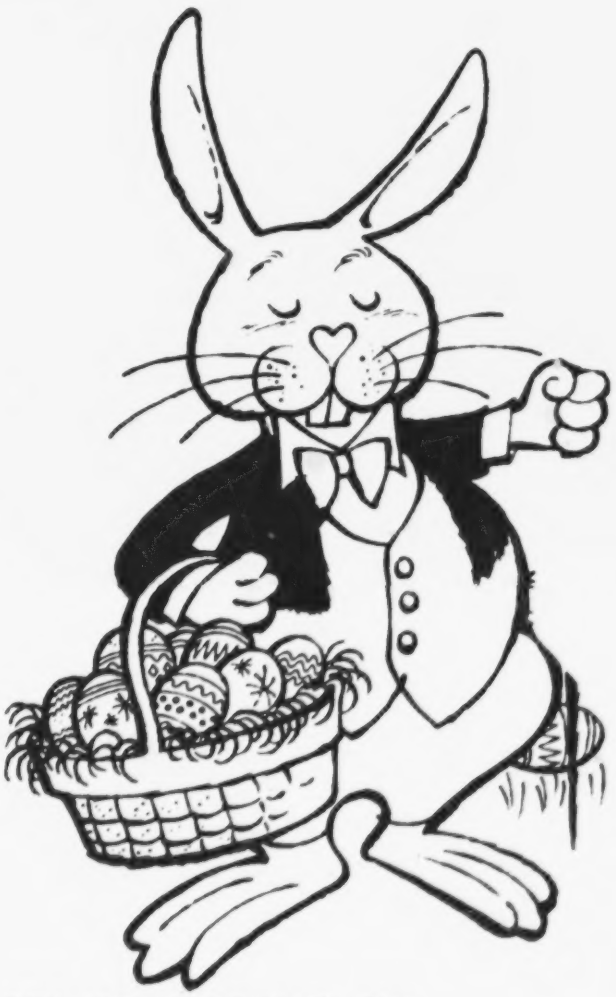
It's obvious that you need warm clothes for winter and bathing suits for summer. "White goods" (refrigerators and washers) sell better in spring; air conditioners in hot weather; TV and stereo in the winter; ski clothes and cruise wear in January. But watch the trade papers for unusual items that have been successful. And try a limited amount of a new thing. It may lead you to new paths. Also take a physical inventory at least twice a year. This is a must. It will pay for itself.

MARKUP, MARKDOWN

Years ago there was a standard 40 percent markup on major appliances. When the specialty stores cut that to 18 percent, the department stores learned the value

*AND HERE YOU MUST TEACH THE CLASSICS OF MERCHANDISING. TAKE TIME TO ILLUSTRATE YOUR POINTS.*

*BUT BEFORE THE CLASS REALLY SETTLES DOWN YOU SHOULD KNOW WHAT "LINE" EACH MEMBER IS IN AND YOU SHOULD TRY TO TAKE YOUR EXAMPLES FROM THEIR SPECIFIC INTERESTS.*



*YOU ARE STILL WITH THE MEAT AND POTATOES--THE TRIED AND TRUE LESSONS OF RETAILING. THESE ARE FUNDAMENTALS SO YOU CANNOT AVOID THEM OR SLIGHT THEM. YOU MUST GET THE BASICS OVER TO YOUR CLASS. FOR SOME IT WILL BE OLD HAT, BUT FOR OTHERS A REVELATION.*

of quick turnover and dollar profit per item rather than the standardized markup.

*YOU MUST TEACH THIS MATERIAL AS IF IT WERE THE NEWEST THING UNDER THE SUN AND MAKE SURE IT IS CRYSTAL CLEAR FOR EVERYONE IN YOUR CLASS. YOU MAY SAVE A BUSINESS SOMEWHERE!*

You are either a Saks Fifth Avenue with a high markup or a Gimbel's Basement with a low markup and quick turnover. Don't be afraid to experiment a little at the beginning. But when you learn the formula that is profitable for your store, stick with it. Flexibility and fine variations will be developed as you go along. But you must start with a base--10, 20, 40, 50, or 100 percent--whatever your situation calls for. The most successful retailers are those who bring a fresh point of view to their specific situation.

*SOMETIMES IT IS WISER TO USE THE SIMPLER WORD: "PROFIT" INSTEAD OF MARK-UP AND "LOSS" INSTEAD OF MARKDOWN. IT DEPENDS ON THE CLASS. SIMILARLY, OVERHEAD MIGHT BE REPLACED BY THE PHRASE "WHAT IT COSTS TO DO BUSINESS" OR "HOW MUCH IT COSTS TO OPEN THE DOOR." AND MAKING A LIST OF ALL EXPENSES ON THE CHALKBOARD AND DIVIDING THAT FIGURE BY THE NUMBER OF BUSINESS DAYS WILL GIVE THE CLASS A CLEAR PICTURE OF WHAT IT DOES COST TO OPEN THE DOOR EACH DAY.*

Remember that your earliest markdown is your cheapest. Don't be too cautious. If you've made a mistake, take your markdown early. Your merchandise does not grow in value as it gets older. But budget your markdowns. If you take too many, you're in trouble.

## PLANNING

*NOTHING IS HARDER TO TEACH THAN THE IMPORTANCE OF PLANNING FOR A SMALL BUSINESSMAN. YOU MUST SHOW HOW IMPORTANT PLANNING IS. MAKE HIM FEEL ITS IMPORTANCE AS A MATTER OF MONEY.*

The first plan you have to make is one for the coming season--Buying Budget, Markup Budget, Column Budget, Markdown Budget, Advertising and Window Display

Budget, Miscellaneous Expenses Budget, and Hospitality Budget.

Try making a budget for the rest of the year. Then a budget for the next fiscal year: January to January or June to June, or whatever makes most sense to you and your business fluctuations.

*YOUR JOB IS TO TRANSLATE THIS ABSTRACT CONCEPT INTO TERMS THE SMALL BUSINESSMAN CAN UNDERSTAND. HE UNDERSTANDS MONEY SO SHOW HOW PLANNING CAN SAVE HIM MONEY.*

*TELL THE CLASS YOU HAVE A 9- BY 12-FOOT KITCHEN AND WANT TO BUY LINOLEUM COSTING $3 A SQUARE YARD. ASK THEM TO FIGURE THE COST FOR YOU. DON'T SAY ANYTHING MORE. WAIT TO SEE WHETHER ANYONE IN THE CLASS ASKS THE IMPORTANT QUESTIONS: "IS SOME OF THE SPACE COVERED BY COUNTERS? DO YOU WANT THE LINOLEUM UNDER A STOVE? ARE THERE ANY OBSTRUCTIONS?" IF NOBODY ASKS THE QUESTIONS YOU CAN JUSTIFIABLY SCOLD THEM FOR SLEEPING AT THE SWITCH. POINT OUT THAT THEY JUMPED INTO THE PROBLEM WITHOUT PLANNING. IF SOMEONE DOES ASK THE QUESTIONS, THE LESSON WILL BE LEARNED JUST AS EFFECTIVELY.*

OPEN-TO-BUY

Let's say you plan to have $10,000 in inventory at the end of the summer season, July 30. You estimate sales from April 30 to July 30 at $50,000 and your present inventory is $27,500. You have already placed summer orders for $7,500:

THE OPEN-TO-BUY FORMULA

| | |
|---|---|
| Planned inventory..... | $10,000 |
| Estimated sales..... | 50,000 |
| Total | $60,000 |
| | |
| Less inventory April 30.. | $27,500 |
| Less summer orders..... | 7,500 |
| Total | $35,000 |

$60,000 less $35,000 leaves an open-to-buy of $25,000.

CONTINUING INVENTORY RECORDS

This operation involves time, and climbing shelves. You need only an inexpensive card file, index cards, and conscientious recordkeeping. There are

three quick advantages:

Peace of mind
Respect from your bank when they know you keep good records
Knowledge of what's moving and when to reorder

*SELLING TECHNIQUES*

Establish confidence.

First sell yourself. Let the customer feel you are sincere and care about her needs.

Don't oversell. Be informative and helpful but don't press.

Know your product. The customer will know if you're making it up as you go along. She will also know the truth. Since manufacturers, libraries, and product information booklets are all good sources, there is no excuse for not knowing your product.

Be courteous. Selling is professional. Treat it as such.

*SELLING LOOKS EASY BUT AS EVERY TEACHER KNOWS IT IS NOT. MANY SMALL BUSINESSMEN DO NOT, WILL NOT, OR CANNOT SELL. YOU MUST SHOW THEM HOW TO GO ABOUT SELLING FOR THIS IS THE REAL WAY TO THE BIG MONEY THEY ARE WORKING FOR.*

Be interested. If your customer needs a gown in a hurry for a special family party or a new stove for a Thanksgiving dinner, show that you are interested in getting what she wants.

Be well groomed and well dressed. And look alive. No one likes to talk to a seedy salesman.

Don't begin with a price. It will fit into the picture when the need or desire for the item has been established.

*EVERY BIG BUSINESS BEGAN WITH A PEDDLER, A SALESMAN, A CONTACT MAN, A PROMOTER--FROM SINGER SEWING MACHINE TO THE GIANT A & P.*

Don't press your own tastes on the customer. You are not her censor.

Let your customer handle the merchandise, run the machine, feel the cloth.

Tell her about guarantees.

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| Tell her how to get the most out of her purchase. | *IT IS YOUR JOB TO SHOW YOUR PEOPLE HOW TO MAKE A SALE. TAKE EACH STEP SLOWLY AND MAKE THEM SEE HOW A SALE IS MADE.* |
| Tell her how to have a garment laundered or drycleaned. | |
| Assure her that service is always available. | |
| Offer her easy payment terms. | *YOU ARE NOW FINISHING YOUR SESSION. FINISH STRONG BY GIVING YOUR STUDENTS SHORT, CRISP BITS OF ADVICE THEY CAN TAKE HOME WITH THEM AND USE IN THEIR EVERYDAY LIFE.* |
| Close the sale nicely but firmly. Take out your salesbook and ask the customer for her name and address. | |
| *AFTER THE SALE* | |
| Your customer is your lifeblood. She can be the source of lots of good business. If she has complaints, listen to them and help her. If she doesn't pay her bills promptly, be reasonably patient. If she doesn't call you, you call her--a week or two after the sale--to make sure everything is all right. When you look at her, you are looking at a continuing source of income. Treat her as you would want to be treated. Get her name, address, and phone number for your mailing list. Stay in touch with her. It will pay off in income for you. | *AS YOU END, STRESS TO THE CLASS THE FACT THAT EDUCATION IS THE KEY TO A BETTER SOCIAL STATUS AND A GREATER PARTICIPATION IN THEIR COMMUNITY.* |

## S U M M A R Y

- Know yourself. Control your weak points, strengthen your strong points--because most businesses fail for lack of emotional self control on the the part of the owner.
- What is the nature of your business? What kind of a community is your business in? Any relationship?
- Know and control your forward and stockroom inventory at all times. It is a gage of your business just as a thermometer is a gage of fever.
- Know how to figure markup. Take a realistic point of view on markdowns.

- Learn to plan for the near future and the far future. Planning is the key to making your business successful.
- Learn the Open-To-Buy formula and stick with it.
- In selling, establish confidence first and then sell with courtesy and sureness.
- Analyze your customer's needs and then try to please her.
- Keep in contact with the customer after the sale.
- Go to school, keep informed about your industry and about better methods.

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Note: Also see Other Teaching Materials at the end of Lesson 6.

# 5

## ADVERTISING AND SALES PROMOTION

### COURSE CONTENT

*HOW TO MAKE ADVERTISING WORK FOR YOU--AND NOT SPEND A FORTUNE!*

HERE IS WHAT YOU NEED:

U. S. Government post cards

A list of your customers

Make a list from sales receipts or in a register book you keep next to your cash register.

Use your local phone book.

Obtain a phone directory broken down by streets from the phone company. They charge a moderate rental fee for it.

Ask your local chamber of commerce or your local newspaper to loan or rent you a list.

Buy a list from an organization like Dunhill's. There are many of them. Look them up in the classified.

### TEACHING SUGGESTIONS

*ADVERTISING AND SELLING IS ONE OF THE MOST ATTENTION-GETTING CHAPTERS TO TEACH. IT IS AN INTRIGUING PART OF BUSINESS BUT IT IS ALSO EXPENSIVE AND INVOLVED. TEACH THE CLASS ABOUT COST AND DETAILS BUT DON'T OVERLOOK THE FUN OF IT.*

*REMEMBER THAT SMALL BUSINESS PEOPLE ARE IN YOUR CLASS, SO YOU MUST CUT YOUR ADVERTISING TO FIT THEIR CLOTH. THIS MEANS THINKING IN TERMS OF PENNIES RATHER THAN HUNDREDS OR THOUSANDS OF DOLLARS, BUT THE PRINCIPLES REMAIN THE SAME.*

*ALWAYS TRY TO GET PARTICIPATION FROM YOUR CLASS. YOU'LL HAVE MORE FUN AND THEY WILL LEARN A LOT MORE, TOO.*

COURSE CONTENT | TEACHING SUGGESTIONS

## WHAT TO WRITE ON THE POST CARDS

Tell your customer you have a special sale: Birthday Sale, Fall Sale, Spring Sale, Clearance Sale, Pre-Holiday Sale, Valentine Sale, Halloween Sale, Welcome-To-New Baby Sale, June Sale, Graduation Sale, Introductory Sale, or any sale title that can apply to your business.

Send out as many post cards as you can afford. A good direct mail return ranges from ½ of 1 percent to 2 percent.

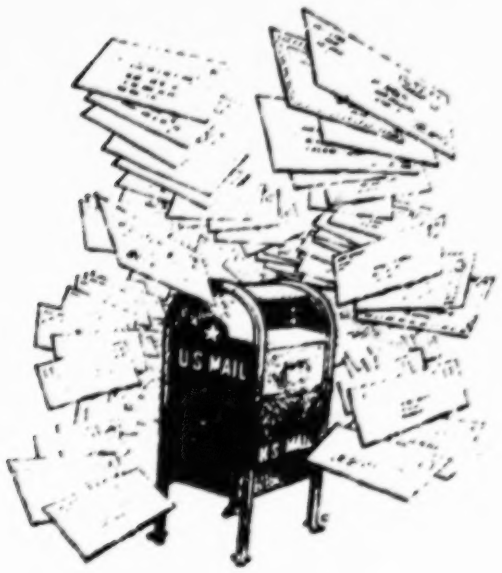
Send out at least one postcard mailing every month. Never let up. The secret in advertising is consistency.

Watch your returns closely and keep a record of sales for a week after your mailing. You will find this a valuable guide for next year.

Cull your lists: This means keeping addresses up to date. And spell the addressee's name correctly.

Avoid the use of "OCCUPANT" as an address. It is an extremely weak introduction of you to your customer.

*EVERY PENNY COUNTS FOR THE SMALL BUSINESSMAN. MOTIVATE HIM SO THAT EVEN IF HIS FIRST TRIES DON'T BRING IN OVERWHELMING SALES, HE WILL KEEP WORKING TOWARD ADVERTISING THAT PAYS OFF FOR HIM.*




*SHOW THE CLASS HOW TO GET THREE OR FOUR ADDRESS LABELS IN ONE TYPING. TYPE A NAME ONLY, ON SHEETS OF LABELS WITH CARBON PAPER BETWEEN. EXPLAIN THAT THE EXTRA LABELS CAN BE KEPT FOR FUTURE MAILINGS. ONE OF THEM MIGHT BE PASTED ON A 3 BY 5 CARD THAT IS PART OF A MASTER FILE. NOTES ABOUT THE CUSTOMER CAN BE MADE ON THE CARDS: WHETHER HE RESPONDS TO THE AD, HIS LIKES, DISLIKES, ETC.*

COURSE CONTENT

## HOW TO MAKE COPIES OF A POST CARD

By hand

By typewriter

By mimeograph or multigraph. There are people who will perform this service for a moderate fee. If you have extra money, ask them to create professional-looking post cards and illustrations, interesting typefaces and bold headlines. Don't be afraid to ask for help. It will cost much less than you think.

By printing. There are two kinds of printing--letterpress and offset. Letterpress is the process in which the printer sets the type in hot lead and, when necessary, makes an engraving of your pictures. The offset process is generally less expensive than letterpress because the material to be printed is photographed and transferred to a drum instead of being set in type.

If you don't know a printer, look one up in the classified. And always get at least three competitive bids. This will help you get a fair price.

Most printers will help you lay out your card to best advantage. They will even find an artist to help if you need one.

## BROCHURES, CIRCULARS, THROWAWAYS

If you can afford it, change your direct mail advertising from a post card to a circular.

Ask your manufacturers and suppliers to help you with the cost of a circular. The worst they can say is "NO." And you will be surprised how often they will say "Yes" and admire you for your aggressiveness. It is to their advantage to help you get out a good circular because you will be advertising their brand locally.

Often your manufacturers can give you "mats"

TEACHING SUGGESTIONS

*YOU MUST LEAD YOUR CLASS STEP BY STEP INTO THE TECHNICAL WORLD OF PRINTING. BE PATIENT AND TEACH THEM HOW TO GET THE MOST FOR THEIR MONEY.*

*SPELL OUT CLEARLY THE CLASSES OF MAIL. TO MAKE YOUR LESSON MORE ATTRACTIVE BRING IN EXAMPLES FROM YOUR MAILBOX OR FROM OTHER SOURCES.*

(prepared ads used in letterpress circulars) containing pictures, advertising copy, prices, and so on. Your printer will know how to use them.

If you are using offset printing, ask for a "coated repro," which is a reproduction of your manufacturer's mat. It is coated to make it reproduce better. Even an uncoated, clear "repro" will do, if you have nothing else.

You can also buy syndicated brochures with your name on them. There are brochures and circulars for jewelry, furniture, groceries, lumber, hardware, appliances, men's wear, women's wear, and shoes, to name a few.

A good source for these circulars is Metro Syndicated Brochures, 80 Madison Avenue, New York, New York.

Since syndicated brochures are printed in great numbers, the price for one, two, or five thousand is not astronomical.

*SHOW YOUR CLASS HOW MAIL ADVERTISING WORKS AND EXPLAIN THE DIFFERENT PRINTING PROCESSES. ALSO SHOW THEM WHAT EACH BROCHURE YOU HAVE BROUGHT TO CLASS IS INTENDED TO DO AND ASK FOR COMMENTS.*

*THE WEEKLY CIRCULAR FROM A SUPERMARKET IS A GOOD ONE TO START WITH. ASK CLASS MEMBERS IF EITHER THEY OR MEMBERS OF THEIR FAMILY ARE INFLUENCED BY THE "5¢ OFF" COUPONS USUALLY PRINTED THERE. THE REPLIES SHOULD BE PROOF ENOUGH THAT BONUS COUPONS WORK. ASK SIMILAR QUESTIONS ABOUT OTHER OFFERS THAT COME IN THE MAIL AND POINT OUT THE KINDS OF ADS THAT DON'T SEEM TO WORK.*

COURSE CONTENT | TEACHING SUGGESTIONS

## CLASSES OF MAIL

First-class--most expensive, delivered first, most impressive. A regular U.S. post card is first-class mail.

Second-class, third-class, and fourth-class mail are cheaper than first-class. But they are delivered after the first-class mail. You need a permit for mail other than first-class.

Information about postage is easy to get. Go to your local postmaster and he will explain the differences in the different classes of mail, how to use permits, whether or not there is a fee for the permit number, and so on

Your postmaster will be glad to help you. He is not only an official of the U.S. Government but he is also seeking to promote the volume of mail his local office processes. You will find him most cooperative.

*A RECENT STUDY CARRIED ON BY A DIRECT MAIL ADVERTISING FIRM PRODUCED SOME INTERESTING CONCLUSIONS THAT YOU MIGHT PASS ON TO YOUR CLASS. A HANDWRITTEN ADDRESS, FOR EXAMPLE, GETS MORE ATTENTION THAN A TYPEWRITTEN OR PRINTED ONE. AND A SMALL ENVELOPE CREATES MORE INTEREST THAN THE LARGER ONE THAT MOST COMMERCIAL FIRMS USE. SIMILARLY, HAVING SEVERAL POSTAGE STAMPS WORTH 6 CENTS ON AN ENVELOPE INSTEAD OF ONE 6-CENT STAMP APPEARS TO BE MORE EFFECTIVE. FINALLY, A COLORED ENVELOPE ATTRACTS THE EYE MORE THAN A WHITE ONE.*

*NEWSPAPER ADVERTISING*

Don't be frightened by it.

Learn linage and column rates.

Ask for all the information the newspaper has.

Consider advertising your wares in the classified section.

Work with your newspaper representative or salesman. He can put you on the right track quickly.

MEASURING NEWSPAPER SPACE

A newspaper is divided into columns which vary in width from newspaper to newspaper. Some are $1\frac{5}{8}$, $1\frac{7}{8}$, $1\frac{3}{4}$, and 2 inches. Your local newspaperman will give you the exact measurement, but for our calculations let's call it 2 inches per column.

In a standard newspaper there are eight columns across--a total of 16 inches. In a tabloid newspaper there are five columns across--a total of 10 inches.

Vertically, the measurement is by agate lines. There are 14 agate lines to an inch. In a standard newspaper there are 296 agate lines in a little more than 20 inches. This too may vary from paper to

*HAVE EACH CLASS MEMBER BRING IN A COPY OF THE SAME NEWSPAPER DURING THIS PART OF THE LESSON SO THAT YOU CAN REFER TO SPECIFIC EXAMPLES DURING YOUR TEACHING. ALSO GET A RULER FOR EACH CLASS MEMBER SO THAT EVERYONE WILL BE ABLE TO PARTICIPATE WHEN YOU TEACH THE TECHNIQUE OF MEASURING NEWSPAPER SPACE.*

paper. In a tabloid there are 200 agate lines or a little more than 14 inches.

So, if you order a display ad 2 x 100, you are actually ordering two columns wide by 100 agate lines long, which is 4 inches wide by $7\frac{1}{7}$ inches long.

A 3 x 200 is three columns wide x 200 agate lines long, or 6 inches wide x $14\frac{2}{7}$ inches long.

A 4 x 150 is 8 inches wide by $10\frac{5}{7}$ inches long.

A 4 x 7 is 8 inches wide by 7 inches deep.

A 5 x 8 is 10 inches wide by 8 inches deep.

A newspaper charges you by the column inch or line. That is, the rates may be quoted at so much an inch. But they always mean column inch. Or if it's so much a line it always means a column agate line.

## CONTRACT RATES

A newspaper sells its space on either an "open" or a "contract" basis. Open rate means running without a contract. It generally involves a higher rate because the newspaper can't plan for your ad.

But if you sign a contract promising to use the newspaper at least once a week for 52 weeks, the newspaper will give you a lower rate. If you contract to use a certain amount of linage for a year, your rate per line goes down.

For example the rate card of your newspaper might read like this:

COURSE CONTENT | TEACHING SUGGESTIONS

THE TEMPLETON TIMES

OPEN RATE..... 50 cents per line
52-week rate..... 38 cents per line
1000-line rate..... 46 cents per line
5000-line rate..... 37 cents per line
10,000-line rate..... 33 cents per line
50,000-line rate..... 28 cents per line
100,000-line rate.... 22 cents per line

*YOU SHOULD BE ABLE TO GIVE YOUR CLASS A PICTURE THEY CAN TAKE HOME WITH THEM FOR THEIR OVERALL VIEWPOINT. THIS PART IS LISTENED TO AVIDLY--A KIND OF BACKSTAGE GLIMPSE.*

You can see that it pays to buy a contract if you plan to advertise often.

Sometimes you may find a freelance advertising man who will do your advertising work cheaply. But most often you should ask your newspaper representative to help you. He will be glad to if properly approached. And remember to ask your manufacturers and suppliers for advertising money.

CLASSIFIED ADVERTISING

*CLASSIFIED ADS ARE A SENSIBLE MEDIUM FOR THE SMALL BUSINESSMAN BECAUSE THEY ARE RELATIVELY CHEAP AND CAN BE USED EFFECTIVELY. URGE YOUR CLASS TO TRY CLASSIFIED ADS ON A CONSISTENT BASIS.*

Classified advertising is generally much less expensive than display advertising. Look at it carefully. There have been many excellent advertising campaigns run by firms using classified advertising only.

Here again your newspaper representative will give you the rates or you can speak to the classified manager of your hometown newspaper.

There are no illustrations or engravings in classified ads (99 percent of the time) so the type alone carries your message. A very successful furrier once used the classified columns to offer "FURS AT A BARGAIN" and in a year's time he had built up a solid clientele. His customers looked to the classified ads for just this kind of a bargain.

*READ WITH THE CLASS SOME OF THE CLASSIFIED ADS IN THE NEWSPAPER YOU HAVE CHOSEN AND ASK HOW SOME OF THE ADS MIGHT BE IMPROVED. THE CLASS MAY ALSO WANT TO WRITE SAMPLE ADS AND HAVE EACH OTHER COMMENT ON THEM.*

A small appliance dealer used classified ads this way:

> PERSONAL--have to sacrifice famous make refrigerator, 14 cu. ft., new condition, best offer. Call MA 2-0023.

The appliance dealer gained a good mark-up by the words "best offer." This ad helped him to become fairly well-to-do in a short time.

*ADVERTISING OVER THE AIR*

RADIO

*IF YOUR CLASS LIVES IN AN AREA WHERE LOCAL RADIO IS GOOD YOU SHOULD TEACH THEM HOW TO USE RADIO "SPOTS" TO THE BEST ADVANTAGE. IN SOME AREAS IT CAN BE VERY EFFECTIVE.*

Local radio is effective only when it is used consistently, called "saturation" in the trade. Generally there are Prime A time rates, Prime B time rates, and so on. What you need to buy is "spot" radio, the half-minute or minute spots interspersed between programs. Spots can often produce results.

Talk with your local radio people about time on their local service programs. For example, if you are in the children's wear business, sponsoring the news about school closing would be effective.

Or sponsoring the early morning news, time checks, etc., is worthwhile. A woman hears this while getting her husband to the train, rushing her children off to school, and doing her early morning chores. It can be a very good identification builder.

Seek out your local radio station representative. He can teach you all the tricks, like using special sound effects for quick identification or advertising during the "sleeper" hours.

But unless you are prepared to spend a fair amount of money over a long period, radio advertising is not a preferred media. If you do use radio, get expert advice and know what your objectives are.

TELEVISION

Television advertising is a rich man's game. There is a story circulating that a millionaire sleeper sofa manufacturer began his ascent to millionaire status by buying TV time in its early days.

*JUST BRUSH TV IN PASSING. IT IS FOR A HEAVY PURSE AND (ALTHOUGH IT SHOULD BE MENTIONED) MAKE NO ATTEMPT TO SELL IT.*

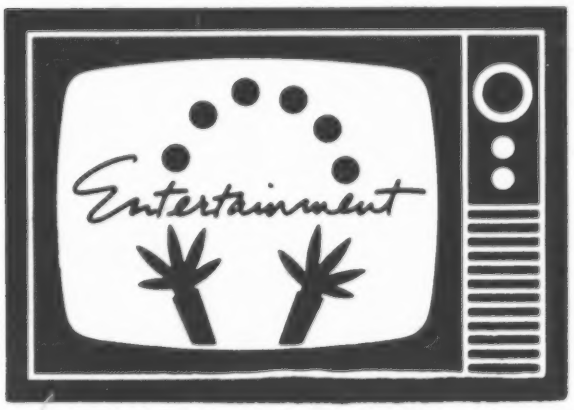
## COURSE CONTENT

## TEACHING SUGGESTIONS

The TV salesman suggested spot time with the idea of trying it for a month. The manufacturer signed up and, lacking money to hire commercial talent, used his young daughter to demonstrate how easy it was to convert the sofa into a bed. By the end of the month the response was so encouraging that he continued on TV.

Today the users of TV are the giant soap, cigarette, car, and food complexes. Occasionally a small businessman achieves rewards by astute buying of off-hour spots. But for practical purposes your only use of TV will be as a viewer. The cost is way out of line for the small man.

*ASK CLASS MEMBERS FOR THEIR FAVORITE TV COMMERCIALS AND HAVE THEM MAKE A CONNECTION BETWEEN THEIR OWN PURCHASING HABITS AND THE FAVORITE COMMERCIAL. SOME OF THEM MAY EVEN BE SELLING THE PRODUCTS THEY SEE ON TV. YOU CAN TELL THEM THAT A NOTE TO THE MANUFACTURER WILL BRING INTERESTING WINDOW DISPLAY MATERIAL.*




*LAST WORD*

If you produce your own ads, remember the classic advertising sequence: AIDA

A for ATTENTION--LOOK AT THIS NEW SPORTS COAT!

I for INTEREST--IT IS MADE OF NEW FIBERGLASS!

D for DESIRE--WE ONLY HAVE A FEW AT THIS LOW PRICE!

*BRING A SERIES OF NEWSPAPER AND MAGAZINE ADS TO CLASS AND SHOW YOUR CLASS THE GOOD ADS AND THE BAD. LET THEM COMMENT. THEY WILL LEARN MUCH MORE FROM THIS "SHOW AND TELL" TECHNIQUE THAN FROM JUST PLAIN PRESENTATION.*

[illegible]

[illegible]

[illegible]

| COURSE CONTENT | TEACHING SUGGESTIONS |
|---|---|
| *OUTSIDE DISPLAY* | *WINDOW DISPLAYS AND INSIDE DISPLAYS ARE SO MUCH A PART OF THE SMALL BUSINESSMAN'S LIFE THAT EVEN THE MOST INEXPERIENCED OPERATOR KNOWS SOMETHING ABOUT THEM.* |
| DON'TS<br><br>Don't say you cannot dress a window before you try. All you need is an idea.<br><br>Don't leave any window in for more than a month. Changing a window every 2 weeks is better. | *YOUR JOB IS TO ENCOURAGE HIM TO KEEP UP THE QUALITY OF HIS WORK TO KEEP HIS WINDOWS AND PLACE LOOKING NEW AND FRESH. THIS WON'T COST HIM TOO MUCH IN MONEY BUT HE DOES NEED INITIATIVE AND IMAGINATION.* |

| | |
|---|---|
| DO'S<br><br>Go to a window display firm either in your hometown or during buying trips. You can get ideas from them free.<br><br>If you cannot go to a window display firm or cannot subscribe to a display service, buy paper cutouts, Halloween lanterns, Christmas Santas, Valentine hearts, etc. from your local stationery firm. If you cannot get manufactured materials, use those at hand:<br><br>A window background of colorful comics pasted on a plyboard or strong cardboard backing makes an effective window display for the holidays. | *SHOW THE CLASS HOW INEXPENSIVE ITEMS BOUGHT IN THE FIVE-AND-DIME CAN TRANSFORM A DRAB STORE WINDOW INTO A COLORFUL AD. CREPE PAPER, A FEW BOWS, EMPTY BOXES, SPRAY PAINT, SHELLS, STARS, AND MULTICOLORED GLASS BEADS CAN BE USED IN THE CLASSROOM TO CREATE A DISPLAY. THIS WILL PROBABLY IMPRESS THE STUDENTS MORE THAN THE BEST ADS IN THE HIGH CIRCULATION MAGAZINES BECAUSE IT IS A FORM OF ADVERTISING WITHIN THEIR REACH.* |

A pyramid of milk bottles, each filled with a different color of water (vegetable dyes purchased in the five-and-dime) with a series of three lights behind them is an attention-getter.

A series of girls' coats hanging on a rope stretched across the window, and kept in motion by two hidden fans, will arrest the attention of passers-by.

You may want to try your local high school and get an art major with some interesting new ideas to dress your window. But do not have stale, uninteresting windows. They are too expensive.

For signs buy white construction paper and inexpensive stencils. And use magic markers and a ruler until you can afford to buy a sign-printing machine.

*INSIDE DISPLAY*

The interior of your store is your house and your customers are your guests. Start out with that basic thought and see how warm and inviting your house can be. Most manufacturers have displays they will loan you or give you. But there are some things you can do on your own:

*HERE IS WHERE YOU HAVE TO DO YOUR SELLING JOB. YOU HAVE TO CONVINCE THE RETAILER, SMALL TV REPAIRMAN, OR SMALL NEWSPAPER EDITOR THAT IT PAYS HIM TO TAKE MONEY OUT OF HIS POCKET FOR ADVERTISING HIS OWN WARES. IT WILL BE DIFFICULT. BUT IF THE LESSON IS TO HAVE ANY MEANING YOU MUST CLOSE THE SALE BY CONVINCING THE RETAILER THAT HE SHOULD SPEND THAT MONEY ON INCREASING HIS BUSINESS. HE WILL LISTEN TO YOU AND MAY SOMEDAY THANK YOU FOR THE PROGRESS HE MADE AS A RESULT OF YOUR TEACHING.*

Display fresh flowers on a chilly November day. Or introduce a note of spring in March before the warm weather begins by displaying spring flowers.

Keep a tray of crackers and cheese. And a pot of fresh hot coffee will keep a customer in your store. Generally the longer he stays the more he buys. Be sure to serve appropriate refreshments. Alcoholic beverages are seldom acceptable as an everyday welcome.

*SET UP A TABLE IN THE CLASSROOM AND PROVIDE COFFEE AND COOKIES FOR THE MEMBERS. THEY'LL SEE IMMEDIATELY WHAT A PLEASANT ATMOSPHERE THIS TOUCH CREATES.*

Save a part of your store for displays from Boy Scouts, Girl Scouts, ladies' clubs, church and temple groups, March of Dimes, local schools, Rotary, Lions, Kiwanis, and any thing else local that is interesting and involves names of local people.

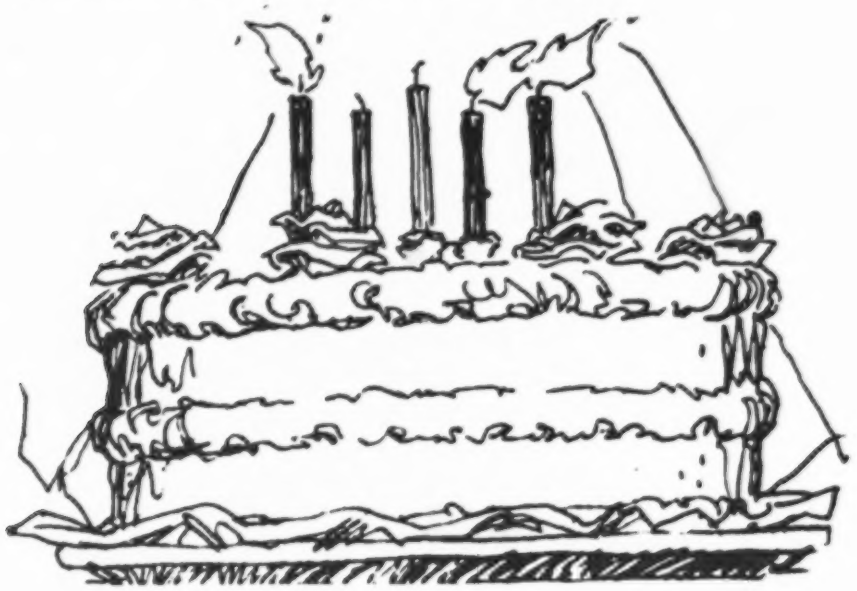
COURSE CONTENT

TEACHING SUGGESTIONS

Have a birthday corner. Everyday is somebody's birthday. A very tasteful display can be made with a few candles and some little bric-a-brac featuring something like this: "TODAY'S BIRTHDAY CORNER IS FOR TOMMY JONES (PICTURE ABOVE) of 18 MAPLE STREET WHO IS 6 YEARS OLD." This will provide much goodwill in the community.

*YOU CAN LEARN THE BIRTHDAYS OF YOUR CUSTOMERS AND THEIR CHILDREN THROUGH CONVERSATION. MAKE IT A POINT TO REMEMBER THEM LONG ENOUGH TO WRITE THEM ON YOUR LIST AFTER THE CUSTOMER LEAVES.*

Keep your store warm and inviting. Make it a meetingplace for your town. Public service invites private buying.



*COSTS*

"All right," you say, "if I buy it, how much does it cost?"

Big department stores budget 4 percent of their sales for advertising. Since you do not have their resources, start with 1 percent of anticipated sales. Let's say you gross $30,000 a year. You can afford $300 a year.

Four hundred post cards a month at $20 a month for 12 months will cost you $240. You still have $60 left for display. Use $4.50 a month for 10 months. That's $45 which leaves you $15 to spend on Thanksgiving and Christmas window displays to polish up your year in style.

*YOU MUST WAKE YOUR CLASS FROM THEIR APATHY--THAT DEADLY DRUG THAT KILLS SO MANY SMALL BUSINESSES.*

*PREPARE YOURSELF THOROUGHLY FOR YOUR CLASS, AND USE ALL THE PROPS MENTIONED ABOVE IN THIS COLUMN. YOU WILL FIND THE CLASS WILL BE MORE INTERESTED AND WILL LEARN FROM YOU AND--MOST IMPORTANT--THEY WILL GO OUT OF YOUR CLASS AND* DO SOMETHING *ABOUT THEIR BUSINESSES.*

*IF YOU ACHIEVE THAT, YOU ARE TRULY A TEACHER!*

If you do $100,000 a year, you can triple all figures.

But it costs nothing to greet your customers warmly and to make friends with everyone who stops by. An investment of as little as $25 a year will take care of the coffee pot, and even this should pay for itself in a few months.

## SUMMARY

- Buy U.S. Government post cards and make up your own customer list or buy a list. Then send mailings to your customers as often as you can afford to.
- When you begin making more money graduate to circulars. Your manufacturers should be willing to chip in with you on a cooperative basis. Find out from your postmaster about second- third- and fourth-class mail.
- Learn to use newspaper advertising. Talk to your local newspaper advertising man. Learn how to measure linage in a newspaper. Take advantage of newspaper service--free mats, and free cuts--and use their advertising layout help.
- Get acquainted with the classified ad department. Read the classifieds and learn how to use them.
- If your local radio brings results see if you can get a consistent "spot" saturation program going.
- Keep your window displays fresh and appealing. You don't need much money--just some good ideas. Keep up your inside displays. Invest in a coffee pot and use it. Make your customers feel at home.

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Note: Also see Other Teaching Materials at the end of Lesson 6.

# 6

## CREDIT AND COLLECTIONS

### COURSE CONTENT

*WHAT IS CREDIT?*

Credit is a service you extend which permits your customer to take goods from your store and to pay for them at a specified date in the future.

WHY SHOULD YOU GIVE CREDIT?

To increase sales. People tend to buy more if they do not have to pay for it now. Credit is one of the strongest weapons in your selling arsenal and you should make every effort to extend it to customers.

THE DINERS CLUB

The founder of the Diners Club supposedly started the club because he had forgotten to bring his wallet to a restaurant. The stereotyped cartoon of this situation always shows the victim standing at a sink flanked by piles of plates leaning like the Tower of Pisa. A patron who belongs to the Diners Club merely signs his name and waits until the end of the month for his bill. He doesn't have to worry about going without a meal. And the restaurant owner doesn't have to worry about getting paid because the club guarantees payment to a member restaurant.

Started after World War II, the Diners Club is now a large organization with representa-

### TEACHING SUGGESTIONS

*THE SMALL BUSINESSMAN IS UNDERSTANDABLY AFRAID OF EXTENDING CREDIT. FIRST, HE MAY NEVER GET HIS MONEY. SECOND, IF HE DOES HAVE A PROBLEM AND USES LEGAL MEANS TO COLLECT, HE MAY GET HIS MONEY BUT OBTAIN A BAD NAME IN HIS COMMUNITY.*

*YET, CREDIT HAS BECOME SO MUCH A PART OF THE RETAIL SCENE THAT HE CANNOT AVOID IT.*

tives in many cities throughout the world. It provides credit for such things as flowers and other kinds of merchandise, travel, and hotel rooms. You can see how effective credit is, as a sales builder.

*SHOW THE SMALL BUSINESSMAN HOW TO CHANGE AN APPARENT DISADVANTAGE TO AN ASSET. THIS REQUIRES SKILL, TACT, AND CLARITY--THE CHALLENGE OF CONVEYING MODERN, SOPHISTICATED MANAGEMENT SKILLS.*

YOU USE CREDIT EVERY DAY

You would have trouble carrying on your business if you didn't have credit with your wholesaler or manufacturer. They in turn would have trouble if the banks or other lending institutions refused to extend credit tc them. Your doctor, dentist, or accountant will generally extend you credit for at least a month. And very often both Federal and state governments extend credit or guarantee credit. So credit is basic. You must seek ways to use it in your own business as a selling tool.

*SO PLAN THIS LESSON CAREFULLY BECAUSE YOU MUST TAKE A NEGATIVE AND CHANGE IT TO A POSITIVE.*

*HOW TO USE CREDIT BUT CUT THE RISK*

*BY USING THE ILLUSTRATIONS OF THE DINERS CLUB AND ANY OTHERS YOU ARE FAMILIAR WITH, YOU CAN OPEN UP NEW WAYS OF THINKING FOR YOUR CLASS.*

SELLING YOUR CREDIT DEBTS TO A BANK

Both the automobile agencies and the major appliance dealers have found that selling their credit debts to a bank relieves them of the heavy expense of operating a credit department.

Here's how they do it: The auto dealer or the appliance retailer displays the merchandise, makes the sale to the customer, gets his signature on the loan papers, and delivers the goods to him. The dealer then turns the papers over to a bank or credit company which will own the contract. The bank or credit company will take the credit risk and will do the collecting on the loan. For this they pay the dealer a sizable commission, and in cases where the dealer produces a large volume, they will give him an additional amount as an "override."

*SELLING CREDIT TO A BANK IS VERY IMPORTANT FOR THE SMALL BUSINESSMAN. IF YOU CAN SHOW HIM HOW MUCH IT MEANS TO HIM, AND HOW HE CAN GET A THIRD PARTY TO TAKE OVER HIS CREDIT PROBLEMS AND STILL MAKE MONEY, YOU WILL HAVE MOTIVATED HIM PROPERLY.*

Customers like this kind of charge-account buying and buy lots of merchandise this way. They want the price of the merchandise to be competitive but they

don't seem to worry about the amount of interest they are paying on the loan. In fact, this sometimes is 1½ percent a month, which adds up to 18 percent a year.

This procedure is to be highly commended. Perhaps a bank or a small credit company will buy *your* credit paper.

## HANDLING YOUR OWN CREDIT SALES

There are some advantages in handling your own paper. The old-fashioned peddler used credit for continuous customer contact. Thus when Mrs. Jones finished paying for a ring for her son or husband, the peddler would say, "Mrs. Jones, your credit is good with me. How about that nice set of pots you were looking at the other time I was here?" Mrs. Jones usually bought the pots.

In the same way the modern merchant can use credit to bring the customer into the store and expose her to new merchandise and induce her to buy more on credit. A retailer who has a credit window placed

*YOUR JOB IS TO ENCOURAGE THEM TO EXTEND CREDIT, TO DEFINE AND CLARIFY THE MANY THINGS CREDIT CAN DO TO MAKE THE WHEELS OF BUSINESS GO AROUND. IN SHORT, YOU MUST SELL CREDIT AS A STRONG LINK IN THEIR CHAIN OF SUCCESS. YOU ARE SHOWING YOUR CLASS HOW IMPORTANT CREDIT IS AS AN INSTRUMENT OF COMMERCE.*

in the back of his store has the customer walk past most of his merchandise in order to pay. The customer is therefore induced to think about new purchases while she is paying for the old ones.

And the merchant can use his credit list for his direct mail advertising by sending his customers monthly flyers describing his new merchandise.

There are disadvantages in handling your own credit and we should note them: When you go into the credit business on your own instead of selling your paper, you must have additional money to carry your accounts receivable and you must pay for the cost of slow collections.

You run the risk of making enemies of old friends if you dun them too much.

You may need added personnel for keeping records of money owed you and you may have to buy or rent bookkeeping machines.

And of course you face the prospect of bad debt losses.

Therefore weigh carefully the advantages and disadvantages before you set up your own credit business.

## A CONTROLLED CREDIT AND COLLECTION POLICY

*THIS IS ONE OF THE MOST IMPORTANT POLICIES YOU CAN TEACH THE SMALL BUSINESSMAN. HE MUST SEE THAT A BUSINESS WITHOUT A CREDIT POLICY IS COURTING DESTRUCTION. IF HE IS TO GROW HE MUST FIND A POLICY THAT SUITS HIS BUSINESS, AND FOLLOW THROUGH WITH IT.*

If you are big enough to do it, hire an experienced credit manager. He knows the credit bureau locally and probably has had contacts with a national credit bureau. He knows when to be firm with a customer and when to go easy if the circumstances call for it.

But if you are not big enough, you must set your own credit and collection policy and stick to it:

*POINT OUT THAT LARGER ORGANIZATIONS HAVE A WRITTEN POLICY THAT DOES NOT PERMIT DEVIATION. THEY ARE BIG BECAUSE THEY FOUND OUT THE VALUE OF POLICY.*

If your decision is to send a succession of three collection notes after 30 days and give it to an attorney for collection after 90 days, then stick with your policy.

If your decision is to send a warning note after the 15th of the month following the purchase, and in 60 days give it to a collection bureau, then stick with this policy.

You cannot have a credit policy that people will take advantage of. If they know you will never prosecute for a bad debt, then your customers will buy irresponsibly. In suburbia not collecting bad debts has plagued many small businesses and in some cases has forced them to get out of business. Do not permit yourself to be forced to the wall because of bad debts.

*YOUR STUDENTS MIGHT TELL YOU THAT THEY'RE TOO SMALL AND INEXPERIENCED TO HAVE A FIXED CREDIT AND COLLECTION POLICY. HAVE THEM ATTEMPT TO JUSTIFY SUCH AN ATTITUDE. THEIR ANSWERS WILL UNDOUBTEDLY REVEAL THEIR SHORTSIGHTEDNESS AND FEAR OF LOSING CUSTOMERS. SHOW THEM THAT A CONTROLLED CREDIT AND COLLECTION POLICY IS IMPORTANT IF THE BUSINESS IS TO GROW AND PROSPER.*

You must set a limit for each customer. The usual way to do this is to code the account. Thus Mrs. Jones is coded "A," which means up to $100 a month. Mrs. Smith is coded "B," which means up to $50 a month. And Mrs. Brown is coded "C," which means only $10 a month. Mrs. Black is coded "D," which means "NG--do not let her charge." Granting someone a charge account can help your business tremendously, but a careless credit policy can also destroy you.

*EXPLAIN THAT IF YOU DISCOURAGE CREDIT YOU DISCOURAGE TURNOVER IN THE BUSINESS.*

*TYPES OF ACCOUNTS*

REGULAR 30-DAY ACCOUNTS

With the 30-day account your customer is billed on the last day of the month in which the purchase was made. She is obligated to pay by the 10th of the following month.

To anyone who has been in business for any length of time, it is interesting to note how many sales are made on the first and second of any month. The reason is obvious. The customer has almost 40 days to repay her debt.

*VERY OFTEN THERE IS NEEDLESS CONFUSION IN EXPLAINING THE DIFFERENT KINDS OF CREDIT ACCOUNTS. YOU CAN HELP BY BRINGING IN COPIES OF CONTRACTS, OBTAINABLE FROM THE CREDIT MANAGER OF A LARGE DEPARTMENT STORE IN YOUR AREA.*

*ANOTHER GOOD WAY TO TEACH THIS SUBJECT IS TO DRAMATIZE A CREDIT INTERVIEW. ONE STUDENT CAN BE THE CUSTOMER AND ANOTHER THE CREDIT MANAGER. THE CLASS ENJOYS THE DRAMA AND ARE QUICK TO POINT OUT THE MISTAKES.*

OPTIONAL ACCOUNTS

In an optional account, the customer exercises her option of paying within 10 days after the bill is sent, without a service charge. She may take up to 12 months to pay, remitting $\frac{1}{12}$ of the debt each month plus a service charge of 1 or $1\frac{1}{2}$ percent.

REVOLVING CREDIT ACCOUNTS

The revolving credit account permits the customer to charge purchases as she does on a regular charge account. But it also gives her the advantage of time payments.

Assume that a customer has a revolving charge account limit of $150. Suppose in January she pays $25 on her $150 purchases made during December. She can now buy up to $25 because she has paid back $25 of her limit. If she gets hold of $125 and pays it on her bill, she has $125 more credit to use.

*POINT OUT THAT MANY BUSINESSMEN JOIN ORGANIZATIONS LIKE UNICARD, A CREDIT ASSOCIATION SERVING LOWER AND MIDDLE INCOME FAMILIES. LIKE THE DINERS CLUB MEMBER, THE UNICARD MEMBER CHARGES HIS PURCHASES AND THE CLUB PAYS THE RETAILER. THIS IS A GOOD ORGANIZATION FOR THE RETAILER WHO DOESN'T WANT TO GET INVOLVED WITH AN ELABORATE CREDIT SYSTEM OF HIS OWN.*

One of the good aspects of the revolving account is that the customer can pay back every month while her needs are small, and have a big charge privilege for occasions like Christmas and back-to-school.

*THE NEW YORK RETAIL INSTALLMENT SALES ACT*

This is an important piece of legislation and you should know the major provisions. It regulates time payments on sales of merchandise for personal use and requires that:

*IT'S IMPORTANT FOR THE SMALL BUSINESSMAN TO BE FAMILIAR WITH THE RETAIL INSTALLMENT SALES ACT BECAUSE, OUT OF IGNORANCE HE MAY GET HIMSELF INTO A JAM. GO OVER EACH PROVISION AND WRITE IMPORTANT POINTS ON THE CHALKBOARD.*

All terms of the retail installment contract must be disclosed to the customer before he signs it.

All contracts must be printed in type at least as big as 8-point and some provisions in 10-point.

The contract is to have no blank spaces except that certain identification may be added later if the goods are to be delivered in the future.

*SIMPLIFY THESE LEGALITIES AS MUCH AS POSSIBLE. THEY CAN BE MADE UNDERSTANDABLE IF YOU LEARN THEM THOROUGHLY YOURSELF AND THEN CAREFULLY EXPLAIN THEM TO YOUR CLASS.*

A buyer is permitted to pay off his loan in full at any time before the end of a loan period, with a proportionate refund of any charges added in advance.

*THEY WILL BE THANKFUL FOR THE SIMPLE EXPLANATION INSTEAD OF THE GOBBLEDEGOOK GIVEN THEM BY TECHNICAL MINDS.*

The buyer must be given a copy of the contract.

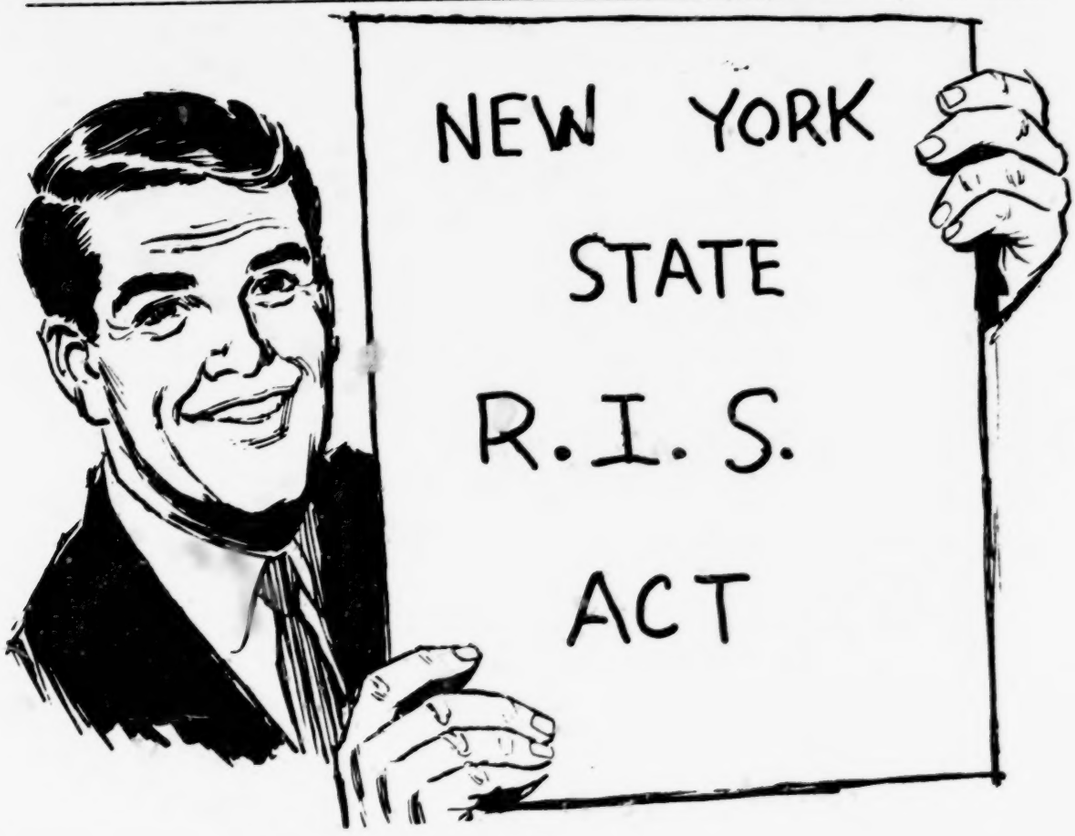
INTEREST AND OTHER CHARGES

The interest rates and other charges are one thing on automobile loans and another thing for loans on other retail merchandise.

For auto loans the interest rate can be either $7, $10, or $13 per year for each $100 of loan, depending on the age of the car.

*POINT OUT THAT THE LAW WHICH COVERS AUTO INSTALLMENT SALES IS THE MOTOR VEHICLE INSTALLMENT SALES ACT.*

Suppose the buyer wants to borrow money also, to insure his car: He cannot be charged more than $7 a year for each $100 loaned for premiums.




The interest rates and other charges on installment loans for purchases other than cars have two categories: retail installment purchases and purchases on a revolving charge account.

For retail installment loans the maximum interest permitted for a loan of $500 or less is $10 a year for each $100 of loan. For loans over $500, the same rate applies to the first $500; the amount over $500 has a maximum of $8 a year per $100.

If the total amount of interest on a retail installment loan is less than $12, the lender may still charge $12. However, if the loan is for 8 months or less, this charge is only $10.

The interest for a revolving charge account also changes at the $500 point. For a revolving account of $500 or less the lender may charge $1\frac{1}{2}$ percent a month; for larger accounts he may not charge more than 1 percent a month for the part over $500.

If the total interest on a revolving charge account is less than 70 cents a month, the lender is still permitted to get 70 cents.

## INSURANCE ON LOANS

The lender on an auto loan may require the car purchaser to carry fire insurance, under the law. For other kinds of retail installment loans, however, the purchaser cannot be required to cover either the merchandise or his own life with insurance. If the buyer decides to borrow money for such insurance, the contract must specify the interest charges for it. The charges are subject to the same maximums as the loan on the goods.

## COLLECTION CHARGES

If a purchaser is in default on a payment for 10 days or more, the lender may add a collection charge. This charge has a maximum of 5 percent of the installment, with a dollar maximum of $5.

In the case of auto loans only, if the lender needs an outside attorney to make the collection, he may charge 15 percent of the loan. A similar charge for an outside attorney used to be permitted for loans on goods other than cars; the present law, however, does not permit it.

*THE THREE C'S OF CREDIT: CHARACTER, CAPACITY, AND CAPITAL*

*HERE IS A GOOD RULE TO PASS ON TO YOUR STUDENTS: WHEN A PERSON APPLIES FOR CREDIT, GET A GOOD BACK-CHECK ON HIM BEFORE YOU SAY YES OR NO. IF HE HAS A POOR CREDIT BACKGROUND, OR NONE AT ALL, TURN HIM DOWN NO MATTER HOW TEMPTED YOU ARE TO GET HIS BUSINESS.*

COURSE CONTENT | TEACHING SUGGESTIONS

## CHARACTER

People follow a pattern. Any credit man will tell you. Generally, if a man has behaved a certain way in the past, he will continue to behave that way in the future. Thus, if he has paid his bills on time, he will continue to. If he has had a record of nonpayment, he will continue that pattern. You will find that the ratings given by a credit bureau are right most of the time.

*TELL YOUR STUDENTS THEY DON'T HAVE TO EXTEND CREDIT WITHOUT A GOOD BASIS.*

*TEACH THEM ABOUT THE MANY CREDIT BUREAUS SET UP TO HELP THEM IN THEIR OPERATIONS, AND TEACH THEM HOW TO USE ALL THE CREDIT FACILITIES OPEN TO THEM.*

## CAPACITY

A man may buy a great deal of merchandise and he may want to pay you back, but he may not have the earning capacity. In such a case, a limited charge is the answer.

## CAPITAL

No matter how rundown an applicant for credit may appear, if his bank says he has the money, go along with his bank. On the other hand, some smartly dressed men smoking big cigars and driving expensive cars may not have any money. The bank will generally give you an idea of the man's capital if you have a legitimate reason for asking.

## *APPLICATION FOR CREDIT*

Applying for credit may be the first contact your customer has with your store. If you do not have a credit manager, do not leave the credit interview to a harassed bookkeeper or a tactless clerk.

Be careful with your interviewing. Do not give the impression of someone trying to pry into the private life of your customer. Be polite and ask only the questions that will establish his credit standing.

*SHOW THE STUDENTS THE CREDIT APPLICATION FORM ON THE NEXT PAGE. SOME OF THE ITEMS ON IT MAKE GOOD TAKEOFF POINTS FOR DISCUSSION.*

*(This is a sample of a credit form to be used as a guide.)*

**********

THE JOHN H. JONES CO.

1211 WEST CHERRY STREET
HOMETOWN
NEW YORK 11033

**********

## APPLICATION FOR CREDIT

Name..... Spouse's Name.....

Address..... City..... State.....

Home Phone Number..... Business Phone Number.....

How long have you been living at the above address?.....

Previous address..... City..... State.....

How long did you live at this address?.....

Employer's Name.....

Business Address.....

Your Position..... Length of Service..... Income $.....

Previous Employment..... Address.....

Other Income.....

Real Estate Owned.....

In Whose Name?.....

Bank Reference..... Branch.....

Type of Account: Savings.... Reg. Checking.... Special Checking.....

Trade References.....

.....

Nearest Relative: Name.....

Address.....

I agree to make payments according to the terms established by this store.

Date..... Signature.....

*CREDIT BUREAUS AND CREDIT ASSOCIATIONS*

## THE NATIONAL RETAIL CREDIT ASSOCIATION

The National Retail Credit Association includes the top credit men in the country. Membership will not only give you valuable data on your customer no matter where he is from, but will also give you their newsletter and many excellent ideas on how to use your credit list for direct mail advertising. It will help keep your credit collection methods up-to-date and will provide you with the latest in credit letters.

## YOUR LOCAL CREDIT BUREAU

*THE SMALL BUSINESSMAN IS GENERALLY A FRIGHTENED MAN. IF HE PERMITS HIS CUSTOMERS AND SUPPLIERS TO ABUSE HIM HE WILL NEVER GET A BUCK AHEAD OF THE GAME. GIVE HIM A GOAL TO SHOOT AT. THERE ARE TOO MANY SMALL BUSINESSMEN WHO ARE EATEN UP BY THE DELINQUENTS.*

Join up. They will verify credit data on a credit application. They also are in a position to investigate legal records of your applicant, any past collection claims, newspaper clippings, if any, and other guides to his responsibility.

There are about 60 member bureaus in the Associated Credit Bureaus of New York State, Inc. They act as a clearing house for credit information in the community.

*YOU MUST SHOW YOUR CLASS THAT THEIR FEARS OF LOSING DELINQUENT CUSTOMERS HAVE NO REAL BASIS. IF THEY LOSE THEIR DELINQUENT CUSTOMERS TO THEIR COMPETITORS (WHICH SEEMS TO BE THEIR MAIN FEAR) THEY ARE ACTUALLY BETTER OFF.*

Your local credit bureau is affiliated with the Associated Credit Bureaus of America, Inc. and they exchange information on a national scale. They have records of your applicant's bill-paying habits with his doctor, his dentist, his finance company, his hospital, and his bank. They can also tell you about your customer's public records such as judgments, deeds, and any retail installment contracts he may have.

So you really have two things to guide you before extending credit:

The applicant's own record on the application

The records of the credit bureau you belong to

Between them you should have a good idea about whether you should give credit to the applicant.

*A CONTROLLED CREDIT AND COLLECTION POLICY*

"THANK YOU" LETTER FOR NEW CREDIT ACCOUNT

This letter, thanking the new customer for his account and welcoming him to the store, should serve in several ways:

"Thank you" is always good to say.

Making him feel at home puts him on your side.

It gives you a splendid opportunity to explain again your credit policy and how you expect him to pay.

SENDING STATEMENTS PROMPTLY

Nothing impresses a customer more than getting his statement promptly. If you have a credit department, then you must insist on this procedure. If you have no credit department and no help, it may pay you to get a smart high school boy or girl to help you. Or perhaps a member of your family will pitch in on this once a month. Whatever you do, get the statements out promptly. It's your money and you should get it back as soon as you can.

Many stores believe in stating their terms either on the face of the statement or on the back. It is a good idea and reminds your customer every 30 days.

DELINQUENTS: REMIND, FOLLOWUP, DISPOSE OF

When a customer falls behind in his account, your headaches begin. The tendency may be to let him come around on his own. This can be business suicide. You should follow these three steps:

If he has not paid you within 10 days of your statement, mail him a polite reminder.

*WE NOW COME TO THE HANDLING OF THE DELINQUENT ACCOUNT. AS YOU KNOW, THIS IS WHERE THE SMALL BUSINESS MAN FALTERS. HE DOES NOT KNOW WHAT TO DO. AND IF HE IS NOT A MEMBER OF A COLLECTION BUREAU, HE FINDS HIMSELF THOROUGHLY BEWILDERED.*

If after 15 days from your reminder he has not paid, send him a sterner letter

If after 30 days from your first reminder he still has not paid, send him a registered letter. Give a final payment date and state that you will turn his account over to a lawyer if he does not pay.

*IT IS YOUR JOB TO TEACH HIM THE STEPS THAT HE MUST TAKE TO GET HIS MONEY BACK. THIS IS NOT A QUESTION OF EMOTION. IT IS A QUESTION OF SYSTEMATIZING THE ACTION HE MUST FOLLOW.*

*TYPES OF DELINQUENTS: HOW TO HANDLE THEM*

Credit men say there are several types of delinquents and that you must classify your customer before going into action.

*DUNNING SHOULD BE PERFORMED WITH COURTESY. TELL HOW ONE BOOK COMPANY HANDLES ITS DELINQUENT PROBLEM BY PROVIDING A SPACE FOR THE CHRONIC LATE PAYER TO GIVE HIS SIDE OF THE STORY. IF HE HAS A LEGITIMATE REASON HE CAN PUT IT DOWN, BUT IF HE DOESN'T IT'S HARD FOR HIM TO AVOID PAYING.*

CHRONIC SLOW PAYER

Unless you can afford him or unless you are desperately dependent on his trade, do not carry this type of payer. He has a different excuse every month. Treat him as your suppliers would treat you if you were a slow payer--suspend him. Write him a letter suggesting he either pay or risk the loss of his credit.

ABLE TO PAY BUT DOESN'T

Some wealthy customers take a patronizing attitude towards the retailer. They feel he can wait for his money. If you feel you are on solid ground, take decisive action. Either by phone or mail, tell him his account is closed and that you expect his check in the morning.

*IN THIS PART OF THE SESSION YOU CAN INVITE THE CLASS TO CONTRIBUTE A GREAT DEAL. THEY HAVE ALL HAD EXPERIENCES WITH CREDIT AND COLLECTIONS, AND YOU SHOULD EXPLORE BOTH SIDES OF THE COIN WITH THEM.*

SLOW BUT WILLING PAYER

Sometimes a man hits an emergency and he is either too ashamed to tell you or doesn't know how. Treat this type of delinquent carefully. Explain to him that you understand his situation and that you are willing to let him repay a little every month until he clears up his debt. You can make a good customer who will be loyal to you. But do not confuse him with the chronic slow payer. They are two different types.

MAN WHO NEEDS REMINDERS

There are many men of goodwill who have to be jolted into paying their charge. Generally a pleasantly worded reminder letter will take care of him. You can tell him from the nonpayer by the fact that he will respond to a polite reminder note.

When all other means have been exhausted, give a delinquent account to your attorney or collection bureau. If you have to depend on delinquents to pay your bills, you can look forward to a short business career. Protect your business and family. Get your money even if you have to lose a few customers to do so.

*REMIND THE CLASS THAT WHEN EVERY GENTLEMANLY METHOD FAILS TO PRODUCE RESULTS, THEY MUST GET TOUGH. BEING LENIENT WITH A CUSTOMER WHO IN EFFECT REFUSES TO PAY IS LIKE CONDONING THE THEFT OF THEIR MONEY. "GET TOUGH" THEN, IS THE THEME YOU SHOULD END THE LESSON WITH.*

## SUMMARY

- Credit can be used to bring in more customers and increase sales.
- In today's market no good businessman can afford to turn his back on credit selling.
- If you feel you do not have the equipment, personnel, or time, then sell your credit paper to a bank or any one of the many new companies that buy credit paper.
- There are many advantages to handling your own credit sales. If in your mind, however, the disadvantages outweigh the advantages, make arrangements for someone else to take over.
- If you do your own credit handling, set a credit and collection policy, make that policy clear, and then follow through.
- There are 30-day accounts, optional accounts, revolving credit accounts, and installment accounts. Make sure you understand the use of each for your business.
- Go over the New York State Retail Installment Sales Act until you understand it very clearly. If you do not use standard forms, make sure a knowledgeable attorney goes over your forms with you.
- On your credit application, make certain you are covering all the ground.

Look at the credit application form in this lesson to see if you can use it in your business.

- Join your local credit bureau and follow the procedures they indicate to check your credit applicants.

- Learn to recognize the different types of delinquent payer and how to handle them. Be tactful but get your money or you won't stay in business long.

## BIBLIOGRAPHY

Chapin, A. F. & Hassett, G. E. Credit and collection principles and practice; 7th ed. New York. McGraw-Hill. 1960.

Credit Research Foundation. Credit management handbook; 2nd ed. Homewood, Illinois. R. D. Irwin. 1965.

Prather, C. L. Money and banking; 8th ed. Homewood, Illinois. R. D. Irwin. 1965.

Also see Other Teaching Materials on page 69.

## OTHER TEACHING MATERIALS

New York State Department of Commerce. Your business: a handbook of management aids for the New York businessman. The Department. Albany, New York. 1968.

U. S. Small Business Administration publishes some management aid booklets and films. The lists cited below can be obtained from the SBA which has offices in New York, Buffalo and Syracuse. Further information on the films can also be obtained from those offices.

### BOOKLETS

U. S. Small Business Admininstration. Free management assistance publications currently available. The Administration. Issued in March and October each year. Free. (SBA 115A) Note: This booklet gives titles of about 500 free publications.

____ For Sale Booklets. Issued in March and October each year. Free. (SBA 115B) Note: This booklet lists the titles of about 75 books and booklets selling at 15 cents to one dollar.

### FILMS

SBA has 10 management training films available for free use. They are black and white; each one runs for $28\frac{1}{2}$ minutes.

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on Adult Education

*This booklet is published primarily for use in the schools of New York State, and free copies are available to New York State school personnel when ordered through a school administrator from the Publication Distribution Unit, State Education Building, Albany, New York 12224.*

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